

THE PROCEDURAL MORTGAGE LENDING GUIDE

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PURPOSE:

The purpose of The Procedural Mortgage Lending Guide is to serve as a reference source to Participating Bank personnel. It details Bud Bank requirements for eligible Participating Banks and the mortgage loans to be pledged as collateral to Bud Bank, as well as the documentation, file maintenance, servicing and reporting responsibilities of the Participating Bank.

Bud Bank will keep Participating Banks (PBs) informed of all policies, procedures and requirements changes through updates to the Guide.

It is the responsibility of the Participating Bank to maintain and update the Guides.

TERMS:

Throughout this Guide, the terms defined below will be used:

Bud Bank,S.A. - (Bud Bank) - The on-lender for funds under the U.S. AID Housing Guaranty (HG) Program and the World Bank Program.

Bank - an entity seeking approval to participate in this program.

Participating Bank - (PB) - Any banking institution which the Bud Bank has approved to participate in Bud Bank programs; for example, HG and World Bank Programs.

Guide -

The Procedural Mortgage Lending Guide (The Mortgage Guide) - Program requirements for mortgage credits.

Mortgage Financing Agreement - Any agreement entered into between Bud Bank and a PB for the purpose of financing mortgage Sub-loans.

Mortgage Sub-loan - (Mortgage loan) - A loan made or proposed to be made by a PB to a household for a Mortgage Sub-project.

Sub-loan - means collectively, construction Sub-loans and Mortgage Sub-loans

Mortgage Sub-project - (house project) A specific construction and/or purchase by an individual household utilizing the proceeds of a Mortgage Sub-loan.

Financing Agreement - Collectively Construction Financing Agreements and Mortgage Financing Agreements.

Housing Finance Project Office - (HFPO) - a department under the authority of MOSEC or any successor thereof which is responsible for the implementation of the HG and World Bank Housing Programs.

Community Association Project - (Community Association) A Cooperative, Condominium or Planned Unit Development Project.

Beneficiary - recipient of the funds of the mortgage loan or construction loan.

Official Government Statistics Wage Index, or its successor, -Wage Change Index in Six Branches of Economy - (The National Wage Index) The index used in determining the amount of change in the beneficiary's payment.

The Mortgage Loan Rate Index - The basic interest rate of the National Bank of Poland.

Margin - The difference between the interest rate charged the beneficiary and the basic interest rate of the National Bank of Poland to be at least 300 basis points.

Ministry of Spatial Economy and Construction - (MOSEC) -or any successor thereof.

Mortgage Fund - (Fund) means the fund to be established within Bud Bank for the purpose of providing a stable source of long term funds for housing investments.

Zlotys - means Zlotys in the currency of the Beneficiary.

Mortgage Loan Contract - (Loan Contract) - The agreement between the beneficiary and the PB which explains all the terms and conditions of the mortgage loan.

Cession - A clause assigning the rights to the proceeds of an insurance policy to the PB.

Escrow Account - A fund held on the beneficiary's behalf by the PB for the payment of taxes and insurance premiums.

Lien - A legal interest in a property. The PB will have a first lien position in the properties financed with mortgage loan proceeds.

Statement of Expenditure - A listing of mortgage loans and related information submitted to the Bud Bank with a request for loan proceeds to refund part or all of the monies disbursed by the PB to the beneficiaries of the mortgage loans.

Subintabulat - A mortgage on a mortgage. The instrument to be used to secure the Bud Bank's interest in the mortgage loans pledged as collateral by the PB.

PARTICIPATING BANK APPROVAL AND ELIGIBILITY

This section describes the procedure for becoming an approved PB under the Program explains the terms of the contractual relationship, discusses the on-going obligations a PB must meet to continue to be eligible for this Program, and defines a PB's general business obligations.

This Section consists of four parts:

1. PB Approval -- discusses the eligibility criteria and the material that should be submitted as part of a PB's application package.
2. Contractual Relationship -- discusses the terms of the Agreement; a PB's basic duties and responsibilities; the spread a PB must build into the mortgage rate in order to compensate the PB for its servicing activities; the imposition of penalty fees, and the formal sanctions we may use if a PB's performance is unsatisfactory.
3. Maintaining Eligibility -- discusses the requirements that must be met for a PB to maintain its eligibility and the business obligations that a PB must consider in the overall conduct of its mortgage operations. It also includes requirements for complying with applicable laws and government regulations, for avoiding conflicts of interest, and for establishing a quality control system.
4. Mortgage Loan Files and Records -- discusses the ownership and custody of mortgage files and records, including the PB's responsibility for establishing and maintaining individual mortgage files and for maintaining accurate accounting and mortgage payment records.

PARTICIPATING BANK APPROVAL

Banks who wish to do participate in the Program must be approved. Approval is based upon the bank's financial condition, its ability to originate and service mortgages funded under this Program, and other relevant factors pertaining to a bank's ability to do business under the Program. Once approved, the Bank is ready to enter into an Agreement which sets forth the contractual relationship between the PB and the Bud Bank and the terms and conditions of the loan used by the PB to refund it for mortgages originated and serviced according to the requirements of the Program.

Eligibility Criteria:

To become a PB, the Bank must:

- * not have more than a 10% ownership interest in the Bud Bank
- * have or show evidence of plans to have as a principal business purposes the origination and servicing of and mortgages;
- * demonstrate the ability to originate and service the types of mortgages eligible under this Program. This can be demonstrated in a variety of ways, such as, but not limited to, a proven record of experience, experience of critical staff members, or acceptable participation in Bud Bank training classes;
- * be properly licensed, or otherwise authorized, to originate and service mortgages;
- * comply with all eligible banking standards required by the Government of Poland;
- * have an acceptable financial capability;
- * maintain quality control and management systems to evaluate and monitor the overall quality of the mortgage origination and servicing activities;
- * submit an independent certified audit for the most recent fiscal year;
- * have demonstrated an ability to establish a separate account for each mortgage utilizing Bud Bank funds; and
- * have its procedures to be used under this Program approved by the Bud Bank.

Application Procedures:

Banks interested in obtaining approval and becoming PBs to originate and service mortgages should contact the Bud Bank. The Bud Bank will send:

- * An Application for Mortgage Approval;
- * An Authorization for Verification of Financial and Business Information; and
- * A draft Agreement and relevant Bud Bank policies, and procedures.

A bank will be pre-approved based upon the application review. A bank will not become a PB until it has entered into its first Agreement. However, if the PB is ready at the time of application to enter into an Agreement (including the loan terms and conditions), the Bud Bank will send two original Agreements and eliminate a pre-approval stage.

Review Fee:

The application review fee for new PBs is Zł The application review fee is not refundable.

Application Package:

The Bank must complete the appropriate application forms in detail and have an authorized senior officer sign the application. The Bank must include the following information with its application.

1. A narrative describing the general scope and history the firm's operations;
2. A statement of the applicant's legal authority to originate and service mortgages;
3. A list of principal officers' names, titles, and areas of responsibility.
4. A list of ownership interests, identifying holders of a 5% or more interest.
5. The Authorization for Verification of Financial and Business Information executed by all principal officers, partners, and owners of a 5% or more interest in the applicant.
6. A list of the companies for which the Bank currently services mortgages, if applicable.
7. Year-end financial statements for the most recent year and, if available, for the previous year, certified by an independent public accountant.
8. A brief description of procedures for handling mortgage origination and servicing.
9. Resumes of key personnel who oversee the origination, underwriting, and servicing functions.
10. A description of the Bank's quality control and management systems for mortgage origination and servicing activities.
11. The application review fee.
12. A letter signed by a Senior Officer accepting the contractual relationship terms contained in the draft Agreement. If the Bank is ready to enter into a final Agreement, the Bank should send the two original Agreements executed by a Senior Officer.
13. If available, a sample mortgage file originated and serviced by the Bank. If the Bank has not originated any mortgages, then, if available, a sample loan file for any other loan originated and serviced by the Bank.

Approval Process:

On receipt of the application package, the Bud Bank will analyze the Bank's ability to originate and service the types of mortgages funded under the Program. On occasion, staff from the Bud Bank may visit the Bank's office and/or request meetings with Bank staff to complete this review.

Unless the Bank is ready to enter into an Agreement containing loan terms and conditions, the Bank will receive a letter of pre-approval and the Guide. This letter will state that the bank will be an approved PB when an actual Agreement is executed. The Bank will be required to sign a warranty that no changes have taken place between the date of pre-approval and the execution of the first Agreement that materially affect the material and information submitted for approval consideration.

If the Bank is ready upon approval to enter into an Agreement, the Bank will receive an executed original of the Agreement. The first executed Agreement will contain all contractual obligations for doing business and specific provisions relating to the first loan received by the PB under the Program. The provisions of this first Agreement will then be incorporated into all future Agreements so that the PB will remain obligated to comply with these provisions as long as the PB does business with the Bud Bank.

The Bank will be assigned a PB Number that should be used on all subsequent correspondence between the PB and the Bud Bank.

Once a Bank receives the pre-approval letter, it may begin to originate and service mortgages that will be refunded by the Bud Bank. Bud Bank staff will assist and advise all PB's on implementation of the Program.

CONTRACTUAL RELATIONSHIP

A Bank becomes a PB upon the execution by both parties of the first Agreement which establishes the terms and conditions of the contractual relationship and the terms and conditions of the first loan. The continuation of that relationship depends on both parties honoring the mutual promises contained in this and future Agreement(s) and on the PB satisfying the requirements contained in the Guide.

Mortgage Financing Agreement Contractual Relationship Provisions:

The first Agreement contains detailed provisions regarding the contractual relationship between the Bud Bank and the PB. These provisions are incorporated into all future Agreements. These provisions:

- * establish the lender as an approved PB
- * provide the terms and conditions of the Loan from the Bud Bank to the PB secured by eligible mortgages
- * establish the lender as an approved servicer of mortgages accepted as security for the Loan provided to the PB
- * provide the terms and conditions for servicing
- * incorporate by reference the terms of the Guide

The Guide specifically states the types of mortgage that are eligible under Program. All mortgages pledged as security under the Program must:

- * be a Dual Index Mortgage (DIM)
- * have a loan-to-value ratio of 75 per cent or less
- * be no more than one year old
- * be to a borrower who meets all credit criteria established by the Bud Bank for these mortgages
- * be for the purchase of a house as a primary residence
- * be for the purchase of a house of 150 square meters or less
- * be a borrower that is a Polish citizen
- * be secured by a property that was completed after September 30, 1991 if in a multi-unit structure if the Loan funding the mortgage uses resources from the Housing Guaranty Program. If World Bank Program resources are used, the construction may not have started before January 1, 1991.

Warranties:

The Agreement and Guides list specific warranties a lender makes to the Bud Bank. These contractual warranties are not limited to matters that the lender had knowledge of. The PB warrants that the mortgage meets all applicable requirements in the Guide and the Agreement.

The PB may be required to make other warranties (which are described in the following Section) before it pledges certain types of mortgages. All warranties apply when each mortgage or group of mortgages is pledged as security for a Loan from the Bud Bank and continues until this Loan is completely paid back.

The PB's breach of a specific warranty entitles the Bud Bank to the applicable rights and remedies for that breach--irrespective of the provisions and conditions of any other warranty and regardless of whether or not the facts or circumstances giving rise to the breach would also give rise to a breach of any other warranty. These rights and remedies may be exercised separately for each breach of a specific warranty, concurrently, or successively with the exercise of any other rights and remedies described in the Guide or allowed by law or equity.

The PB must indemnify and hold the Bud Bank (and its successors and assigns) harmless against

all losses, damages, judgments, and legal fees based on (or resulting from) a breach of its warranties or representations. If a warranty made by the PB--whether the warranty is one of the specific contractual warranties in the Agreement or this Guide or was otherwise made at our request-- is untrue, the PB may be required to pay back the related Loan for which the mortgage(s) is collateral. The Bud Bank may also enforce any other applicable rights and remedies, including but not limited to requiring the PB to substitute an eligible mortgage for one determined to be defective collateral.

Additional Warranties:

The PB must make the following warranties which apply to any mortgage it pledges as collateral for a Loan and Agreement. These warranties are in addition to those provided in the Agreement:

* The PB has the staff and facilities to service the pledged loan in accordance with Bud Bank requirements.

* When a mortgage is secured by a unit in a community association form of housing (cooperative, condominium or Planned Unit Development), the PB warrants that the project meets any requirements for such housing contained in the Guide, unless such requirement has

been waived by the Bud Bank for the specific project. Additionally, if the structure is a multi-unit structure, it must have been completed after September 30, 1991 to be eligible for a Loan funded with resource

- * When the PB pledges a mortgage secured by a ground lease, it warrants:
 - the lease is valid, in good standing, and conforms to all Guide requirements for ground leases
 - all rents and other payments that have become due under the lease have been paid properly
 - the lessee is not in default under any provision of the lease; and
 - the lease does not provide for its forfeiture or termination for any reason except the non-payment of lease rents.
- * When the PB is unable to include information related to recordation of the mortgage loan instrument lien request in its documentation to Bud Bank, the PB warrants that the only reason was the fact that the mortgage instrument lien request recordation data was unavailable at the time of the pledging of the mortgage to us and it will insert any information necessary at a later date.
- * When the PB pledges a mortgage that has a minor title impediment that is not objected to by the Bud Bank, it warrants that the impediment does not materially affect the marketability of the property and agrees to indemnify the Bud Bank if there is a loss that can be directly attributed to the impediment.

Special PB Obligations:

Any commitment contracts, collateral agreements, or other applicable agreements and contractual documents in which the PB agrees to undertake special obligations in connection with acceptance of mortgages -- whether they relate to a transaction that has already been entered into or one that will be

entered into in the future -- are considered to be a single, combined Agreement (and not a separate contract or agreement).

It is the intent of Bud Bank and the PB that acceptable mortgages will serve as collateral for loan funds advanced from the Bud Bank to the PB. Although the mortgages remain the property of the PB, it is the express intent of both parties, that the request by the PB that the Bud Bank accept the mortgages as collateral be interpreted as:

- * a pledge by the PB to Bud Bank of all related mortgages to secure a debt or other obligation of the PB
- * a grant by the PB to the Bud Bank of a first priority perfected security interest in the mortgages.

Accordingly, for every transaction involving a Loan, the PB grants to the Bud Bank a security interest in all of the PB's right, title, and interest in and to each of the mortgages serving as collateral for such loan from Bud Bank, for the purpose of securing the PB's performance of all of its obligations under the transaction and under any applicable commitment contracts, the Guide, or other agreements relating to the transaction, including the payment of principal, interest, and other sums due to Bud Bank.

Assignment of Servicing:

If the PB uses another PB to approved company to perform some of its servicing functions, it is still accountable for any actions taken (or not taken when required) by these companies.

After a mortgage is pledged as collateral for a Loan, all subsequent assignments of servicing related to that mortgage must be approved by the Bud Bank before the servicing can be transferred.

Servicing Compensation:

As compensation for servicing, the PB must charge the borrowers of pledged mortgages a higher interest rate than the Bud Bank charges the PB on the loan to the PB. The PB is also permitted to retain late charges and fees charged for special services for the borrower as additional servicing income. For mortgages refunded with resources from the World Bank, the margin over the index must be at least 300 basis points.

A PB (or the servicer of record) may not sell -- or otherwise assign, transfer, pledge or hypothecate -- its servicing compensation or any portion of it) or enter into any agreement that would result in the sale, assignment, transfer, pledge or hypothecation of that income.

PBs' Basic Duties and Responsibilities:

PBs perform their origination and servicing functions under the Agreement as an independent contractor, not as an agent or representative of Bud Bank. PBs are expected to use sound business judgment in all aspects of their operations to ensure that they have adequate staff and facilities to originate and service quality mortgages; to protect against fraud, misrepresentations, or negligence by any parties involved in the mortgage origination process; and to provide mortgagors with assistance when it is requested.

PB's are responsible for underwriting decisions on mortgages pledged as collateral for a Loan. They are responsible for ensuring that mortgages under the Bud Bank's programs meet our eligibility requirements. Mortgages pledged to us must conform to the requirements contained throughout this Guide. To assure that its staff is knowledgeable in all aspects of mortgage origination and servicing, the PB must have fully documented written procedures and implement measures -- such as periodic reviews of mortgage originations -- to determine that those procedures are operational.

Changes in PB's Organization:

The PB must send the Bud Bank written notice of any contemplated major changes in its organization and any changes in its business address. The PB must include with its notice copies of any filings with, or approvals from, its Governmental or other regulatory authority.

The PB must provide official notice of these major changes:

- * the resignation of any senior management personnel;
- * any mergers, consolidations, or reorganizations;
- * any substantial changes in ownership;
- * any change in corporate name;
- * a significant change in the PB's financial position.

Imposition of Penalty Fees

If the PB is not satisfactorily fulfilling these eligibility requirements or that failing to comply the Agreement and Guide, and, therefore, is in breach of the Agreement, a variety of remedies can be pursued either to correct a specific problem or to improve the PB's overall performance, in lieu of exercising the right to terminate the Agreement. Possible remedies include requiring the PB to indemnify the Bud Bank for a loss, requiring the PB to payoff the Loan, imposing a formal sanction against the PB, or imposing a fee.

The PB may be charged a fee, or have imposed upon it other remedies, for such failures as:

- * Late submission of annual financial statements. The PB must submit its annual financial statements to the Bud Bank within 30 days of their completion. If it does not do so, a penalty fee of ZL___ per month may be charged.
- * Unauthorized transfers of servicing. PBs must obtain prior approval of a change in corporate ownership that results in a transfer of servicing. If a PB fails to obtain prior approval of a proposed transfer -- or does not submit its request for approval at least 30 days in advance of the effective date for the transfer of servicing -- the PB may be charged a penalty fee and exercise any other available remedy.

Loan Payoff or Mortgage Substitution Requirements:

The PB may be required to repay the Loan due to its breach of any warranty, under the terms of any applicable Agreement, Contract or Guide provisions, or because of servicing deficiencies that have had a materially adverse effect on the property's value.

When repayment is required, the PB must pay us the funds that are due within 30 days of this demand. If the PB believes that this demand is not justified, the PB must provide the Bud Bank with a written explanation for its position within 30 days after demand for repayment is made. However, if the Bud Bank subsequently have to take legal action to enforce this repayment right, the PB will be liable to for legal costs and related expenses.

Warranty Violations:

The Bud Bank will review a percentage of the mortgages pledged as collateral to ensure that they meet all eligibility criteria and underwriting standards. If this review discloses that a mortgage did not meet these standards because it was in violation of a warranty, the PB will be required to either correct the violation, repay the portion of our loan to the PB collateralized by the relevant mortgage(s), or substitute another mortgage. The fact that a mortgage has passed this quality control review or any other review, however, does not in any way limit the right to require repayment if a warranty breach is discovered later.

Imposition of Sanctions:

The Agreement establishes the basic legal relationship between a PB and the Bud Bank. This relationship and the mutual responsibilities it includes are predicated on sound and ethical practices by both parties. If any act, omission, or failure of performance by the PB constitutes a breach of the Agreement, the Agreement and this relationship may be terminated for cause or other sanctions may be imposed. Generally, before such actions are taken, the PB will be given notice and have an opportunity to submit a written response explaining any mitigating circumstances or specific proposal to satisfy performance problems.

Suspension:

A PB may be suspended from participation in any Bud Bank program. The PB will be given specific actions that must be taken before the suspension can be lifted.

Termination for Cause:

The PB may be terminated for cause if the required improvement in its performance is not achieved during the period in which its participation is suspended. The PB may also be terminated without suspension. Reasons for termination include, but are not limited to failure to follow the requirements of the Guide, to meet financial requirements, or to meet any of the other eligibility requirements specified in the Agreement and Guide.

MAINTAINING ELIGIBILITY

This section concentrates on the PB's specific administrative responsibilities and business obligations that must be covered in the overall conduct of its mortgage operations.

Internal Audit and Quality Control Systems:

The lender must maintain adequate internal audit and management control systems to:

- * assure that the mortgages are originated and serviced in accordance with sound banking and accounting principles;
- * guard against dishonest, fraudulent, or negligent acts; and
- * guard against errors and omissions by officers, employees, or other authorized persons.

Every lender requesting approval must have a quality control system in place that verifies the existence and accuracy of legal documents, credit documentation, property appraisals, and underwriting decisions. The system should assure that mortgages conform to Bud Bank policy and procedures and be

capable of evaluating and monitoring the overall quality of mortgage production.

Financial Statements and Reports:

The PB must financially capable of fulfilling its obligations under its Loan from the Bud Bank. The PB must submit an audited financial statement to the Bud Bank within 30 days of their preparation. A penalty fee for a late statement may be imposed. Some PBs may also be required to submit special reports related to the financial information about their operations. A PB's privileges may be suspended if these reports are not submitted within the time frame required.

The financial statements must include:

- * a balance sheet
- * an income statement
- * a statement of retained earnings
- * a statement of additional paid-in capital
- * a statement of changes in financial position, and
- * all related explanatory notes.

Examination of Mortgage Operations:

The PB must certify that its mortgage operations have been examined by an independent accountant and provide the Bud Bank with a copy of the accountant's report if requested. The accountant's examination should include, but not limited to, a comparison of the PB's stated net worth and the net worth reflected in its audited financial statements to determine that they are in agreement (except as noted in the statements); and a comparison of the PB's internal trial balances for a given month and the accounting information the PB submitted to the Bud Bank for the same month to confirm that the PB is reporting the status of its accounts accurately.

Interest Rate and Payment Changes:

The PB must certify that it has made all of the required interest rate and/or monthly payment adjustments and that all adjustments were made in accordance with the mortgage terms.

Eligibility of Documents Custodians/Custodial Depositories

The PB must certify that any document custodian it uses to hold the mortgage or construction loan instruments and documents satisfies all of the eligibility criteria and operating standards in this Guide.

Compliance with Applicable Laws:

The PB is responsible for being in compliance with applicable regulations that apply to any of their business practices. They must also ensure that properties securing pledged mortgages comply with local zoning and other regulations.

MORTGAGE FILES AND RECORDS

The PB is responsible for establishing and maintaining individual mortgage files and for maintaining accurate accounting and mortgagor payment records. The Bud Bank has the right to examine at any reasonable time, any and all records that pertain to our collateral and all accounting reports associated with those mortgages and mortgagor remittances, and any other reports and documentation that are considered to be necessary to assure that the PB is in compliance with Bud Bank requirements.

Ownership of Mortgage Files and Records

All mortgage papers and documents, that are reasonably required to originate and subsequently service a mortgage properly will be the property of the PB. However, the Bud Bank has a right to access to them at any time upon written request to the PB. In the event of default under the provisions of this Guide, Agreement(s) or any other contractual agreements between the PB and the Bud Bank, the Bud Bank will have the right to retrieve from the PB and either maintain or assign the custody of such documents to a third party custodian.

Custody of Mortgage Documents

The document custodian must be acceptable to the Bud Bank.

Access to Records:

If requested in writing, the PB must deliver all mortgage records and documents to the Bud Bank or its designee. Each mortgage must be clearly identified. If the PB has microfilmed or condensed any of the records, it must reproduce them at its own expense. If the PB fails to provide the records or give a reasonable explanation or any evidence showing that the requirement was satisfied, the Bud Bank can take any action that is authorized under the Agreement or the Guide for the PB's breach of Bud Bank requirements.

Document Custodian Eligibility:

In order to be a document custodian, an institution must:

- * Be a financial institution meeting all applicable laws.
- * Be equipped with secure, fireproof storage facilities, and have adequate controls on access to them to assure the safety and security of the documents.
- * Utilize in its custodian function employees who are knowledgeable in the handling of mortgage documents and of the functions of a mortgage document custodian.

Types of Records:

Mortgage files and records include the individual mortgage files, permanent mortgage account records, and accounting system reports. The PB must establish an individual mortgage file when it originates a mortgage of construction loan. The accounts and records relating to pledged mortgages must be maintained in accordance with sound and generally accepted accounting principles and in such a manner as will permit Bud Bank examination and auditing at any time.

The PB must also retain records showing the flow of funds from the mortgages to the Bud Bank and make these records available when requested.

Specifically, Bud Bank's examination and audit will consist of:

- * monitoring all monthly accounting reports;
- * conducting periodic procedural reviews during visits to the servicer's office or the documents custodian's place of business;
- * conducting, from time to time, in-depth audits of the internal records and operating procedures -- including, but not limited to, the examination of financial records and underwriting standards; and
- * performing spot-check underwriting reviews of mortgages on a random sample basis.

Individual Mortgage Files:

The PB must establish an individual file for each pledged mortgage. Among other things, the file must include:

- * A copy of the related Schedule of Mortgages which accompanied the request for funding of the Loan;
- * Originals of the mortgage instruments and documents;
- * Copies of the pertinent underwriting documents; and
- * Any documents obtained when the mortgage was originated if they might be required to support title claims at some future date (for example title evidence or survey).

Mortgage Payment Records:

The PB servicing the mortgage must maintain permanent account records for each pledged mortgage it services. The PB's accounting system must be able to produce detailed information on:

- * All transactions that affect the mortgage;
- * The financial status of the mortgage; and
- * The amount and timing of recapitalized interest.

Underwriting Performance Reviews:

A sample of pledged mortgages will be reviewed to ensure that they meet all underwriting and eligibility requirements. The first 25 mortgages will also be reviewed.

Review Process:

The review will encompass a complete review of the credit, legal, and property documents and possibly reverification of this information.

Required Documentation:

The files submitted for review should include all documentation needed to support the PB's underwriting decision. These documents should demonstrate the borrower's ability to repay the loan, his willingness to repay the loan, and evidence that the property has sufficient value to support the loan.

FILE DOCUMENTATION AND VERIFICATIONS

The PB must maintain separate files for each eligible mortgage loan to be pledged as collateral to the Bud Bank. These files must have certain documentation as described in the following section.

PROCESSING DOCUMENTS/VERIFICATIONS

LOAN APPLICATION:

All initial loan applications shall be completed, signed and dated by the beneficiary and the PB at the onset of processing. The loan application should disclose:

1. The amount of the loan requested,
2. The location of the property,
3. The purpose of the loan (e.g. purchase of existing unit, construction loan, or rehabilitation of existing home)
4. The household income,
5. The purchase price or cost to construct the property.
6. All outstanding debts and obligations of the beneficiaries (loan payments, child support, alimony, lease payments, etc.).
7. Names, addresses and individual incomes of all beneficiaries.
8. Marital status of all beneficiaries.
9. Any real estate or businesses owned by any of the beneficiaries.
10. Any bankruptcies, judgments or other credit problems applicable to any of the beneficiaries.
11. Current housing expense (rent, utilities, etc) presently being paid by beneficiaries.
12. Projected utility, tax, insurance payments and other housing expenses for the new property.
13. All dependents, whether residing with beneficiaries or not, who the beneficiary is obligated to support completely or in part.
14. Any continuing medical expenses for which the beneficiaries are responsible.

The PB should review the application for completeness and reasonableness. A precursory review should be made in the beneficiary's presence to ascertain if there is any reason the mortgage loan requested would not be eligible under the Bud Bank's programs.

GENERAL ELIGIBILITY GUIDELINES:

Eligible Individuals:

Individuals living alone
Married Couples
Individuals choosing to form a household

Polish citizens who have permanent resident status in Poland and intend to occupy the property as their primary residence

A member of a cooperative who has or can obtain title to the ownership interests and occupancy rights of the desired unit and will have the right to resell it.

Eligible Properties:

Newly built units constructed with funds provided, in part, by the Bud Bank under the terms of The Procedural Construction Guide or newly built units that meet the eligibility requirements for construction projects detailed in the Procedural Construction Guide.

Units in multi-story buildings with 100 square meters or less of usable area including all rooms in the unit but not the thickness of the walls nor separate garages, storage areas or service areas. Units that are row houses, semi-detached houses, or single family houses with 150 square meters or less of usable area including garages, storage areas and service areas, but not including walls per unit.

Older homes with newly constructed improvements financed under the terms of the Procedural Construction Guide.

Eligible properties must be registered in the Books of Lands and Mortgages without disputed ownership.

For mortgage loans refunded with World Bank Resources, construction of the mortgage sub-projects must not have started before January 1, 1991.

For mortgage loans refunded with HG Resources, construction must have been completed after September 30, 1991.

Ineligible Properties:

Vacation homes and other units not intended to be a primary residence of the beneficiary.
An existing home that has constructed for more than one year.
Commercial properties.

Eligible Loan Amounts and Income:

A loan amount that is the **lower** of 75% of the market value of the property or 36 times the household income.

Income that is verifiable and regular. Household income includes:

Income of all family members or persons who are currently living together, plan to live together in the unit to be purchased, contribute or will contribute on a regular basis to meeting the household's expenses and will be on the application form and on the title to the property.

Acceptable sources of income are:

Salaries and customary bonuses from full-time employment,
Verifiable income from part-time or additional employment,
Payments from retirement or pension plans; and
Other sources that provide verifiable and regular income to the household.

INCOME VERIFICATION:

Salaried Employees:

A Certificate of Income from the employer showing at least the prior quarter's income. Four quarters of income is preferred.

A statement from the employer regarding the probability of the beneficiary's continued employment, the likelihood of bonuses, raises or commission in the future and any business expenses the employee is responsible for.

A Tax Office Statement if the Certificate of Income and employer's statement is not available. The Tax Office Statement should cover at a minimum the most recent quarter's reported income and preferably the past four quarters.

All forms of income verification must clearly show the beneficiary's name, gross income for the period covered and the person's title and signature confirming the information.

If possible, verifications should be obtained directly by the PB. If it is necessary for the beneficiary to deliver them to the PB, they must be in the original unopened envelope addressed and sealed by the beneficiary's employer of the tax office.

Self-Employed Beneficiaries: (An individual who owns 25% or more of a business is considered self-employed)

Copies of business tax statements for a minimum of three quarters and when available for the past two years.

Individual tax statements for a minimum of three quarters and when available for the past two years.

Financial statements of the business for the prior two years.

Pro Forma balance sheets, profit and loss statements and cash flow statements for the next two year period.

Commercial or business credit references.

Personal credit references.

SOURCE OF FUNDS VERIFICATION:

The PB must verify the sources of the beneficiary's down payment and related mortgage loan fees or costs. Acceptable documentation includes:

- * A receipt from the Seller for the deposit made on the property, or a Sales Agreement or Purchase Contract that indicates the amount of the deposit made by the beneficiary
- * Verification of funds in a bank account
- * A gift letter from a family member or other donor. The gift letter should state whether repayment of the funds is expected. The donor's funds must be verified by a statement from a bank

account, canceled check payable to the beneficiary, or the beneficiary's bank deposit receipt.

- * Evidence of a sale of assets such as bank deposit receipts, canceled checks from the purchaser, title transfer documents.

PURCHASE CONTRACT OR SALES AGREEMENT:

A purchase contract or sales agreement should be obtained from the beneficiary, which contains the following information:

- * The names and addresses of the seller and purchaser,
- * A description of the unit, including its address, legal description and general characteristics, including the number of square meters,
- * The purchase price of the unit, as agreed to by the seller and purchaser, and
- * Any special conditions or terms affecting the sale of the unit or validity of the Purchase Contract.
- * The deposit made by the purchaser.

The Purchase Contract or Sales Agreement must be signed by the beneficiary and the seller or an authorized agent of the Seller.

LAND OWNERSHIP EVIDENCE:

Proof of ownership of the land should be obtained from the Book of Lands and Mortgages. Preferably a Bank employee should be responsible for procuring this information. However, the beneficiary may bring an extract of Sections 3 and 4 of the Books of Land and Mortgages to the Bank. Such extract should indicate that the Seller is the owner of the land.

Under Section 3 there should not be any limitations or liabilities shown that would impair the Bank's or the Beneficiary's ability to sell the land at a future date or that would negatively impact the marketability and thereby the value of the property.

If the property is subject to a perpetual land lease, an additional statement from the local government regarding the legal status of previous owners is recommended to insure future claim disputes do not arise from former displaced owners.

If there are any existing mortgages or liens against the property, they must be released or subordinated to the PB either prior to the disbursement of the mortgage loan proceeds or with the loan proceeds.

APPRAISAL:

An independent appraiser, with no interest in the subject property or the transaction should determine the market value of the property to be financed. The appraiser must be knowledgeable and experienced in the valuation of properties similar to the property to be financed. The appraiser must also be certified by the Ministry of Construction.

MORTGAGE LOAN CONTRACT:

The PB should complete a loan contract which details all the terms and conditions of the loan. The loan contract must be signed by a PB representative and the beneficiary. All the terms, conditions and requirements should be carefully explained to the beneficiary. It is particularly important that the beneficiary understand the features of the DIM Mortgage, the eviction and foreclosure rights of the PB against the property and other PB remedies relating to guarantors and additional pledged collateral. It is recommended that the beneficiary attend counselling sessions on home ownership, foreclosure, budgeting household expenses and the DIM mortgage.

The beneficiary should not be obligated to commit to the mortgage credit until he has received such explanations of the terms of the loan. Preferably several days should intervene between such explanations and actual commitment on the part of the beneficiary to finalize the loan.

The loan contract should stipulate any additional collateral the beneficiary will be required to pledge to the PB. The loan contract should provide for the possibility of additional requirements being added after the underwriting review. Additional conditions or requirements to the original contract loan terms should be evidenced in writing between the beneficiary and the Bank.

Provisions should be made which require the beneficiary to disclose to the Bank any change in personal or business status that could either impair the Bank's lien position or the beneficiary's ability to repay the loan. Examples of events that should be disclosed to the PB are:

- * Inability to pay workers' salaries or general deterioration of an owned business
- * Significant medical expenses or death of a beneficiary
- * Divorce, especially if child support or alimony payments are required
- * Adverse tax rulings or unpaid taxes
- * Foreclosure or bankruptcy proceedings
- * Additional borrowings for personal or business expenditures.

The contract must require that the beneficiary continue to pay for hazard insurance coverage and all tax obligations (both related and unrelated to the property being financed). The beneficiary must provide evidence of payment of taxes and insurance to the PB at least annually or as payments are due more often for as long as any portion of the mortgage loan remains unpaid.

Evidence of payment of land lease dues and any other State or local government fees and dues must also be provided the PB routinely.

Loan contracts executed in connection with mortgage loans funded by AID Housing Guaranty Resources must provide for funds to be held in escrow for insurance, tax and land lease payments, where applicable, at the option of the PB. The PB may exercise this option at any time after the mortgage loan proceeds are disbursed.

Loan contracts executed in connection with mortgage loans funded in part by World Bank Resources must require escrow deposits for the payment of taxes, insurance and land lease payments, where applicable.

Where applicable, the beneficiary must agree to submit to the execution process in the event of default.

The beneficiary must agree to supply the PB with Certificates of Income or Tax Office Statements of reported income as requested and business financial statements if self-employed.

VERIFICATION OF OTHER DEBTS:

The beneficiary should list all outstanding existing credits on the loan applications. The creditors (banks, suppliers, etc) should be contacted directly by the PB to determine the status of each loan. Information on the amount of credit extended, the length of time the beneficiary has had an account

relationship with the creditor and the payment record (whether payments have been made as agreed) should be obtained, preferably in writing.

The nature of credits (for business or personal purposes), the aggregate amount in relation to the beneficiaries income and asset levels, and the trend (is the amount of debt increasing or decreasing) should be considered in the analysis of the beneficiaries ability to handle additional debt obligations.

It is also suggested that the beneficiary sign a statement that all outstanding debt has been disclosed on the application and that he will disclose any future debt incurred to the PB.

The beneficiary should also list any loans on which he is a guarantor on behalf of someone else.

VERIFICATION OF ADDITIONAL COLLATERAL:

If it is determined that additional security for the loan is required in the form of guarantors, income certificates as discussed above should be obtained from each guarantor. The guarantor should also be interviewed as to whether he or she has made other guaranties on behalf of individuals or has outstanding credits that might reduce his or her ability to repay the loan in the event of a default by the beneficiary.

A bill of exchange (veksel) in blanko should be completed and left with the PB. Any other necessary documentation to assure the PB's interest in the guarantor's assets should also be completed.

If the guarantor is married, a statement from the spouse consenting to the guaranty should be obtained.

If the collateral is in other forms, such as land and personal assets, the beneficiary's ownership of the assets, and the PB's ability to acquire them in the event of default must be ascertained.

The PB may also wish to accept assignments of life insurance policies, guaranties from other banks or businesses, or pledges of financial assets such as bank deposit accounts. In all such cases the PB's right to obtain the pledged assets and apply them toward the outstanding loan balance should be determined prior to disbursement of the loan funds to or on behalf of the beneficiary.

An Automatic, First Demand bank guaranty is desirable when offered by a financially sound institution.

INSURANCE EVIDENCE:

The beneficiary should provide the Bank with evidence of hazard insurance in the amount equal to the property value minus land cost.

The policy should have a clause reflecting the Bank's right to insurance proceeds should the property be damaged.

A copy of the insurance policy should be retained in the file.

Copies of subsequent policies should be obtained and kept in the file as well in order to document uninterrupted coverage on the property financed.

TAX PAYMENT EVIDENCE:

The Beneficiary must provide the PB with evidence of payment of all taxes due including personal income taxes, real estate taxes, land lease payments due the State or local governments, business taxes and any other applicable State or local government fees or taxes.

DISCLOSURES:

Loan Denial:

If a loan request is denied for any reason, the beneficiary must be notified, in writing promptly. If the cause of the denial could be remedied (the beneficiary could offer additional collateral or pay off existing liens against the property) this should be disclosed in the denial letter. Preferably such recommendations would be made to the beneficiary prior to the final credit decision to provide an opportunity to approve the loan request.

Two copies of the Letter of Mortgage Sub-loan Denial should be sent to the beneficiary with a request to return one signed copy to the PB for the mortgage loan file. Only one beneficiary signature, in the case of multiple applicants, is required.

Loan Approval:

If the loan is approved, the PB should issue two copies of the Letter of Mortgage Sub-Loan Approval to the beneficiary who keeps one copy and returns a signed copy to the PB for the mortgage loan file. Again only one beneficiary signature is required on the mortgage loan file copy.

The approval letter must contain the following information:

- * The approved mortgage amount, disbursement procedures and the beneficiary's repayment obligations.
- * All credit terms and conditions, including the initial interest rate on the mortgage sub-loan, the frequency and basis for making periodic adjustments to the interest rate, the compounding period for unpaid and recapitalized interest, and the initial effective annual interest rate at the time of the borrowing.
- * Identity of the property to be financed.
- * All documents and other items (including the down payment and any closing costs and fees) that must be brought to closing.
- * The date, time and place for the loan closing.
- * Any conditions that must be met prior to the loan closing.

LIEN RECORDATION:

The Bank's mortgage credit should be entered in Section 4 of the Books of Lands and Mortgages. An agent of the PB should be responsible for obtaining a release of lien if the previous owner had a mortgage against the property that was paid off by the PB's loan and for registration of the PB's mortgage with the Notary. A copy of the extract from the Books of Lands and Mortgages should be forwarded directly to the Bank by the Notary reflecting the PB's Mortgage under Section 4.

If required by the Notary, PB personnel should prepare a Mortgage Agreement in addition to the Loan Contract for filing with the Notary in order to register the PB's lien on the property. This may be required if the PB is not a State Bank. When a Mortgage Agreement is required, it must contain the specific payment dates on the loan (for example, the 15th of November, the 15th of February, etc.) and must have the beneficiary's agreement to submit to execution if payments are not made as agreed.

In the event the property is subject to a Perpetual Land Lease, the PB must be able to secure a first lien position on the underlying land.

LIEN ASSIGNMENTS:

At time of lien registration, the PB must assign its right and interest in the mortgage and any additional collateral pledged to it by the beneficiary to the Bud Bank, S.A. Assignment of the interest in the mortgage should be effected through the jurisdictional notary at the time the PB's mortgage is registered.

The PB must also reserve lien priorities for subsequent registrations of larger loan amount each two years. Subsequent lien registrations will be necessary if capitalized interest creates an outstanding loan balance larger than the original amount of the mortgage loan.

UNDERWRITING GUIDELINES

For every pledged mortgage loan, the PB should establish that:

- * the beneficiary has the ability to repay the debt;
- * the beneficiary is willing to repay the debt;
- * the property and pledged collateral is sufficient security for the mortgage; and
- * there are no existing obligations of the beneficiary which are in default that could jeopardize the lien position. Examples of such obligations are:

Past-due child support payments
Past-due wages owed to employees
Past-due property and other taxes

CREDIT DOCUMENTATION

Generally, the documentation that supports the request for approval of the beneficiary's credit should be on standard Bud Bank forms. However, equivalent credit forms may be used if they provide all of the essential information that is contained on Bud Bank forms and Bud Bank specifically provides for the acceptability of certain alternative documentation. The documents in the application package must be legible originals that do not have any alterations, erasures, or "whiteouts". Facsimiles or photocopies are not acceptable substitutes for original documents, unless Bud Bank specifically provides for their acceptance. The application package should also include any other information needed to verify, clarify, or substantiate information in the beneficiary's application.

STANDARD CREDIT DOCUMENTATION:

Credit documents must reflect the current status of the beneficiary. Employment and income verification forms should be obtained within 60 days of the disbursement of the loan funds. Appraisals on existing properties should be performed within 60 days of disbursement of the mortgage loan proceeds. When the documents are older, the PB must obtain updated written verifications. The documents listed above are the base credit documents. Other information may be required and obtained to further support the credit decision.

VERIFICATION OF EMPLOYMENT AND INCOME:

Income verification is necessary to determine the beneficiary's ability to repay and must be documented for all household members who will be contributing funds toward the monthly mortgage payment.

Self-Employed Beneficiaries:

Every effort should be made to determine the viability of the beneficiary's business. Financial Statements should be analyzed for trends. Growth in sales, revenue and most importantly, net profits are favorable trends. Reductions in outstanding debt, faster turnover of inventories and improving cash flows are also positive factors. Growth in sales or locations alone are not indicative of success if not accompanied by increasing profits. Profit margins (sales revenues minus cost of goods sold) should also be stable or increasing.

Both financial statements and pro formas should be examined for any significant changes and the beneficiary should provide reasonable explanations for such variations. The financial statements and pro formas should provide evidence that the income stated by the beneficiary is reasonable and likely to continue.

Business references should be contacted to determine the payment history of the business and its image with customers, suppliers and competitors. Account payables should be paid promptly. Suppliers can provide valuable information regarding the trend of the specific enterprise (are the size of orders increasing or decreasing) and the industry in general, typical profit margins, the degree of competition and level of demand.

Competitors may also be interviewed to determine the economic climate for the industry and the reputation of the beneficiary's business.

Resumes of the beneficiary and key personnel should be reviewed to determine the level of expertise in their respective fields.

Net income shown on the financial statements should match that reflected on the Tax Office Statements received or explanations for the difference must be explained by the beneficiary.

The PB should document in any other way feasible the profitability and viability of the beneficiary's source of income.

Salaried Employees:

The Certificate of Income or Tax Office Statement must identify clearly the beneficiary and the gross income for the periods covered. The employer should also provide a statement to the PB which addresses the beneficiary's probability of continued employment, maintenance of existing income level, likelihood of the continuance of any overtime, bonuses or commissions, any anticipated layoffs, pay increases, or promotions for the beneficiary.

The PB should be aware of general industry trends when overtime, bonuses or commissions are a significant part of the beneficiary's income.

The Certificate of Income should be completed by the Personnel Department of the employer or if one does not exist, by the beneficiary's supervisor. It should be forwarded directly to the PB by the employer, or by a secured method as agreed to by the PB.

The Certificate of Income and Tax Statement should be compared and any differences explained by the beneficiary.

If the beneficiary has multiple jobs, a Certificate of Income should be obtained from each employer as well as the employer's comments on the probability of the beneficiary's continued employment at existing gross income levels.

If the beneficiary has seasonal or part-time jobs, Tax Statements should be obtained for as many quarters as possible to substantiate the consistency of such employment. The average monthly income can be calculated by dividing the gross annually income from such jobs by twelve.

VERIFICATION OF FUNDS AVAILABLE FOR CLOSING:

Acceptable sources of funds are listed above. The PB must ascertain that the beneficiary has sufficient cash to make the required down payment and pay any related land registry fees, closing costs or other loan related expenses. A reserve of funds should remain equal to at least two monthly payments after payment of all transaction costs.

If bank account verifications are obtained, they must be issued by the beneficiary's bank and must show the beneficiary's name, address, account number, date the account was opened and the average balance over the preceding quarter. Any unusually large deposits should be explained and documented by the borrower. Such deposits might be evidence of borrowed funds not disclosed on the application. The

beneficiary must have a minimum down payment of 25% of the value of the property from his own funds. Borrowed funds from unsecured loans are not acceptable for the down payment. Gift funds from a family member or other donor are permissible. A gift letter must be obtained from the donor which states the amount of the gift, the purpose of the gift and whether repayment is expected, (if so, the funds are a loan, not a gift and are not an acceptable source of funds). The letter must show the donor's name, address and relationship to the beneficiary.

The gift funds must be verified. Bank statements reflecting the funds in the donor's account or canceled checks in the amount of the gift with matching deposit receipts from the beneficiary's bank account are acceptable verifications of the gift funds.

If gift funds are not transferred to the beneficiary prior to loan closing, a certified check at closing or a settlement statement reflecting the receipt of the funds at closing from the donor are acceptable forms of documentation.

The beneficiary's contribution toward a portion of the down payment, and the occupancy of the unit by a donor are both positive aspects of gift arrangement which would help support the credit request.

A gift (or grant) from a church, municipality, or nonprofit organization must be evidenced by either a copy of the letter awarding the gift or grant to the Beneficiary or a copy of the legal agreement that specifies the terms and conditions of the gift or grant. This supporting document must indicate that no repayment of the gift or grant is expected and indicate how the funds will be transferred (to the Beneficiary, the PB, or the closing agent). The PB must include in the individual mortgage file evidence of the transfer of the funds-such as a copy of the donor's canceled check or a settlement statement showing receipt of the check.

The proceeds from the sale of a previous home is an acceptable source of funds. A copy of the fully executed settlement statement of the sale of the home, which shows sufficient net cash proceeds to consummate the purchase of the new home, must be used to verify the funding of the sale. A Sales Agreement or Purchase Contract is not sufficient documentation of a sale of a previous home.

Similar documentation for the sale of other assets may also be used as funds verification.

Stocks, Bonds and other financial assets are also acceptable sources of funds if their existence and current value can be determined. Current account statements from stock brokers, investment firms, trust departments or banks are may be used. The actual stock certificates, bonds, etc may also be presented and their value determined by reference to market listings in papers such as The Wall Street Journal or Financial Times.

Cash-on-hand is not an acceptable source of funds for the down payment or closing costs, unless it is deposited with either the PB or the seller (as the down payment) within five days of submitting an application for a mortgage. The source of the funds must be verified if possible and must be an amount that is reasonable in relationship to the beneficiary's income and position.

Borrowed funds that are secured by an asset represent a return of equity. Because of this, they may be used for the transaction. Assets that may be used to secure funds include savings accounts certificates of deposit, stocks bonds, automobiles, real estates, and life insurance policies. The PB must verify both the terms of the loan and the fact that it is a secured loan. Monthly payments for the loan must be considered as debt when qualifying the Beneficiary. When the loan does not require monthly payments, the PB should calculate a monthly payment amount that would normally be required by a lender on similar loans and consider it as debt.

VERIFICATION OF PAYMENT HISTORY ON PREVIOUS HOUSING:

To substantiate the beneficiary's payment history on previous mortgages or rented properties, the PB may accept any of the following--the beneficiary's paid receipts for the last 12 months, the beneficiary's canceled checks for the last 12 months a credit reference covering at least the previous 12 months' activity; or the account statement from beneficiary's landlord or mortgagee (provided it includes a payment receipt

history) supplemented by the beneficiary's certification of his timely payment of such obligations.

The beneficiary's receipts or canceled checks must be legible, identify the mortgage servicer (or mortgage holder) or rental property manager/owner and indicate the date and amount of each payment.

Other documentation and/or means of documenting the beneficiary's payment of rent or mortgage payments may be developed by the PB as long as the file contains written evidence of the procedures and documentation used and the documentation covers at least the prior twelve month period.

CREDIT VERIFICATION:

The PB must document the beneficiary's payment history for all credit obligations. Such documentation should include all debts the beneficiary has had payments obligations on within the past two years. Direct confirmation from banks and other lenders, in writing, is the best means of establishing a credit history that is acceptable to Bud Bank.

The Union of Banks default records should be checked for the names of beneficiaries on the mortgage loan and the names of any businesses owned by beneficiaries either jointly or independently.

Other verification sources, such as routine withdrawals in the amount of the rent payment, utility payments and other credit obligations which are documented on bank records may be combined with credit references from other lenders or business suppliers and others with whom the beneficiary has routine transactions, to establish the beneficiary's history of meeting payment obligations and willingness to do so.

GUARANTORS:

If the PB is unable to establish consistent monthly income and/or credit history, a credit approval decision may still be justified if the beneficiary is able to find family members or others willing to sign a veksels or guaranty form in blanko. By doing so, the co-signers will be obligating themselves to repay the mortgage loan if the beneficiary does not. Such an underwriting case would be greatly strengthened by an actual contribution toward the down payment by the guarantor of at least 5% of the property value and his or her occupancy in the unit financed.

The same procedures outlined above for income and employment and source of funds verification should be used to determine the income stability and financial capacity of the guarantor to meet the beneficiary's obligation in the event of default.

The guarantor should also receive full explanation of the terms of the mortgage loan and the DIM mortgage loan contract and the full extent of the liability assumed if the beneficiary defaults. It is imperative that the guarantor be notified promptly if the beneficiary's mortgage loan becomes delinquent.

APPRAISALS

The appraiser's role is to provide the PB with an adequately supported estimate of value and a complete, accurate description of the property.

The PB's role is to analyze the property based on the appraisal and to judge whether the property is sufficient security for the mortgage requested.

When the information or methodology of an appraisal requires additional clarification or justification, the PB must obtain from the appraiser any information that is necessary to make an informed decision concerning the property. Because it is essential for the PB to have an independent, disinterested examination and valuation of the property, the PB must select the appraiser and order the appraisal report, rather than allowing the beneficiary (or any other party that has an interest in the transaction) to do so. The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.

The appraiser's estimate of value of the property should be based on the following definition of market value:

Market value is the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

The PB should scrutinize the following items on the appraisal report to determine the reasonableness of the estimate of market value reached by the appraiser:

- Age of Appraisal
- Exhibits
- Usable Area
- Cost Approach Analysis
- Income Approach Analysis
- Comparable Sales Approach Analysis
- Neighborhood Analysis
- Site Analysis
- Subject Property Analysis
- Final Reconciliation

AGE OF APPRAISAL:

If the appraisal report will be more than four months old on the date of the disbursement of funds, the appraiser must inspect the exterior of the property and review current market data to determine that the property has not declined in value since the date of the original appraisal. The appraiser must provide a certification to that effect, based on an inspection of the exterior of the property and knowledge of current market conditions. The original appraiser should complete the certification of value; however, if a substitute appraiser is used, the substitute appraiser must review the original appraisal and certify that the appraiser's estimate of market value was reasonable on the date of the original appraisal report. The PB should note in its files why the original appraiser did not do the certification.

EXHIBITS:

Exhibits may vary depending on the type of property being appraised. Specifically, Bud Bank requires:

- * A street map that shows the location of the subject property and all comparables that the appraiser used;
- * An exterior building sketch of the improvements that indicates the dimensions. For attached units in community associations, the sketch of the unit must indicate interior unit dimensions rather than exterior building dimensions. The appraiser must also include the calculations of usable area. A floor plan sketch indicating the dimensions is required if the floor plan is functionally obsolete, resulting in a limited market appeal for the property in comparison to competitive properties in the neighborhood;

- * Clear, descriptive original photographs that show the front, back, and a street scene of the completed subject property and that are appropriately identified;
- * Clear, descriptive photographs that show the front of each comparable sale and that are appropriately identified. Photographs produced by electronic imaging or copies of photographs from a multiple listing service or from the appraiser's files are acceptable if they are clear and descriptive;
- * Certification of completion and value, if applicable;
- * A description of energy-saving features or an energy rating form if applicable; and
- * Any other data-as an attachment or addendum to the appraisal report form-that are necessary to provide an adequately supported estimate of market value.

SUBJECT PROPERTY

Units in Community Associations

A community association or other multi-unit structure must have been completed after September 30, 1991 if a mortgage secured by a unit is to be pledged to Bud Bank for refunding with HG resources, or construction must have been started after January 1, 1991 if the mortgage is to be refunded with World Bank resources.

A planned unit development (PUD) is a type of community association that includes common property and improvements that are owned and maintained by an owner's association for the benefit and use of the individual units within the project. The owners association must require automatic, non-severable membership for each individual unit owner, and provide for mandatory assessments.

The appraiser should include an adequate description of the project and information about the project maintenance. The appraisal of an individual unit in a community association requires the appraiser and the PB to analyze the project as well as the individual unit. The appraiser must pay special attention to the location of the individual unit within the project, the project's amenities, and the amount, purpose and sufficiency of the owners' association assessment since the marketability and value of the individual units in a project depend on the marketability and appeal of the project itself.

If the prior construction loan on the property was funded by the PB making the mortgage loan on an individual unit, the PB need only put a note in the file verifying that the project met the requirements of the Procedural Construction Lending Guide. If the prior construction loan was not funded by the PB making the mortgage loan, the PB must have in the file a statement warranting the following:

The PB must warrant that the community association is properly incorporated, registered and has a member-approved constitution and elected officers. The PB counsel , or outside counsel, must verify the approved legal status of the community association, and the legality of the constitution and the structure of the community association. The PB underwriter must review the proposed operating budget to ascertain that it is consistent with the project and provides for adequate working capital to fund operating expenses and the establishment of a reserve fund for the common area components. The financial statement of the community association must contain adequate funds to service current debt and maintain financial integrity of the association. The developer's plan must clearly show completion of all common areas prior to occupancy, and the developer must have a reasonable plan for change of control from the developer to the association. The association must demonstrate a plan for the on-going management of the completed project. The association and the

developer must have projected, for 5 years from the completion of construction, reasonable association/project expenses. The developer must not have used unreasonable fees or charges for project amenities. In addition, the project must not contain more than 15% of the total area in commercial activities, and these activities should supply services - dry cleaning, convenience markets - to the residents.

Properties Affected by Environmental Hazards

When the appraiser has knowledge of any hazardous condition, (whether it exists in or on the subject property or on a site within the vicinity of the property), it must be noted on the appraisal report. A comment on any influence that the hazard has on the property's value and marketability with appropriate adjustments in the overall analysis of the property's value must also be made.

A mortgage secured by a property that is affected by an environmental hazard is acceptable if:

1. the impact of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal, and
2. the appraiser reflects in the appraisal report any adverse effect that the hazard has on the value and marketability of the subject property, or
3. indicates that the comparable market data reveals no buyer resistance to the hazard.

To illustrate: properties may be located in neighborhoods affected by radon gas or the presence of hazardous wastes. In such situations, the appraiser should reflect any adverse effect or buyer resistance that is demonstrated and measurable through the available comparable market data.

If the effect of the environmental hazard is not measurable, because the discovery of its existence is so recent, or the hazard is so unique, the property will not be eligible.

Energy-Efficient Properties

An energy-efficient property is one that uses cost-effective design, materials, equipment, and/or site orientation to conserve nonrenewable fuels. The appraiser must consider the market's reaction to energy-efficient improvements, or proposed alterations. The appraiser should list the energy efficient item(s) and reflect their contributory value on the appraisal. This adjustment should be based on the appraiser's analysis of comparable properties. However, if adequate comparables are not available, the appraiser may develop an analysis of the present worth of the estimated savings in utility costs.

The PB may qualify a newly constructed dwelling as energy-efficient if it is built in compliance with energy conservation programs that have been approved by Bud Bank and its funding sources.

Mixed-Use Properties

Properties that have a business use in addition to their residential use-such as a house in which day care is provided or one that includes a professional office-are eligible, **provided** they meet the eligibility criteria below. The appraiser must provide an adequate description of the mixed-use characteristics of the subject property in the appraisal report and the PB must make sure that it considers these criteria and

adequately addresses them. Specifically, a mixed-use property must:

- * be a single-family dwelling;
- * represent a legal, permissible use of the property under the local zoning requirements; and
- * not have any existing (or plans for) special use modifications that would require a significant expenditure to convert back if the property were again used solely for residential purposes.

Property Description

The appraiser must identify the subject property by its complete property address and legal description; a post office box number is not acceptable. The appraiser should indicate the nearest intersection if a house number is not available.

The appraiser must identify whether the property rights are ground leases. In addition, the appraiser must indicate whether the subject property is located in a community association. The appraisal for units in a community association must include an adequate description of the project and information about the owners' association fees and the quality of the project maintenance.

To be eligible for Bud Bank, a mortgage must be secured by a property that is residential in nature-based on the characteristics of the subject property, zoning, and the present land use. Mortgages on agricultural-type properties (such as farms, orchards, or ranches) are not acceptable.

All properties must be readily accessible by roads that meet local standards, and must have adequate utilities. The appraiser must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

Any property that is not suitable for year-round occupancy-regardless of where it is located - is unacceptable.

The appraiser must state the total amount of the loan charges and/or concessions that will be paid by the seller (or any other party who has a financial interest in the sale or financing of the subject property) and provide a brief description of the items on the appraisal report form. Refinance transactions should be noted on the appraisal form.

NEIGHBORHOOD ANALYSIS

The appraiser should collect pertinent data, make a visual inspection of the neighborhood to observe its physical characteristics and boundaries, and identify land uses and any signs that they are changing. Appraisers should extend their search of the subject market area as far as necessary to assure that all significant influences affecting the value of the subject property are reflected in the appraisal report. Appraisers should use their best judgment in determining and describing neighborhood boundaries. The limits of a neighborhood can be identified by various physical characteristic-including, but not limited to, streets, bodies of water, land uses, types of dwellings, etc. The PB should review carefully the neighborhood description to confirm that the appraiser used comparables from within the subject neighborhood in the analysis.

The appraiser should explain any changes that have occurred that might influence the marketability of the properties within the neighborhood. For example, the appraiser must comment if there is market resistance to a neighborhood because of the known presence of an environmental hazard. The PB must be satisfied that the neighborhood will be acceptable to a sufficient number of buyers to support an active, on-

going market for the property.

Some PBs may underwrite mortgages in urban areas on a block-by-block basis. Block-by-block underwriting and appraisal analysis are acceptable in cases in which rehabilitation has started-either in the block where the subject property is located or in facing blocks visible to the property-but has not yet spread to the rest of the neighborhood. The acceptability of this type of appraising or underwriting is conditioned on the appraiser demonstrating that local conditions make it appropriate and that all essential factors are considered.

Degree of Development and Growth Rate

The PB must review carefully the appraisal report for properties that have sites larger than those typical for residential properties in the area. Special attention must be given to the appraiser's description of the neighborhood, zoning, the highest and best use determination, and the degree of comparability between the subject property and the comparable sales.

Property Values

Maximum financing is acceptable when property values are stable or increasing. The PB must not offer maximum financing in any instance in which property values are declining. Maximum financing means the beneficiary's down-payment is 25% or less of the market value of the property.

Supply and Marketing Time

An over-supply of housing is not desirable since it indicates that properties are selling slowly with a lot of competition. The appraiser must comment on the reason for the oversupply and its effect on the property's value.

Marketing time is the average time that it takes for a reasonably priced property to sell in the subject neighborhood. When marketing time for a particular area is greater than six months, the appraiser must comment on the reason for the extended marketing period and its effect on the property's value.

Competitive Listings

A narrative comparison of the competitive listings that are most comparable to the subject property should describe the general market conditions that affect similar properties in the subject market area, and identify trends in listing prices, average days on market, and recent changes. The purpose of reporting active listings is to provide support for the primary indicators of market condition (growth rate, property values, demand/supply, and marketing time). The analysis of active listings should be used to evaluate both the inventory of properties currently for sale in the subject neighborhood and competing with the subject property, as well as recent price and marketing time trends that affect the subject property.

Present Land Use

Typically, dwellings best maintain their value when they are situated in neighborhoods that consist of other similar dwellings.

The appraiser should report separately the percentage of developed single-family sites, developed two- to four-family sites and community association sites, etc. Undeveloped land should be reported as vacant. If there is a significant amount of vacant or undeveloped land, or unusual use land (such as park land) in the neighborhood, the appraiser should include comments to that effect in the "Neighborhood Comments" section of the report to assure that the neighborhood is adequately described. The total of the types of land uses must equal 100%.

Changes in Land Use

If the appraiser indicates that an area is undergoing transition, the changes and their effect on the marketability and value of the subject property must be described in the appraisal. A change from predominantly owner-occupied to predominantly tenant-occupied units or a high vacancy rate, are examples of transitions that may negatively impact values.

Price Range and Predominant Price

The price of the subject property should be within the predominant price range in the neighborhood. When the subject property has a sales price (or value) that exceeds the upper price range, the property is considered an "over-improvement" for the neighborhood. The property is considered an "under-improvement" if its sales price (or value) is less than the lower price range. If the subject property is an over-improvement, the mortgage terms generally should be more conservative because the property may not be acceptable to typical purchasers. The appraiser must explain why the property is an over- or under-improvement and comment on the adjustments that were made in the "sales comparison analysis" to reflect that condition.

The PB should consider whether a property in an urban area is among those being renovated. Since demand for this type of property can be strong, the property should not be regarded as over-improved if there is a strong market interest, which is indicated by the existence of comparable properties.

Age Range and Predominant Age

The age of a property should be within the general age range of the neighborhood. A property that has an age outside of the general age range must receive special consideration. Unless there is strong evidence of long-term neighborhood stability, a new dwelling in an old neighborhood will carry some marginal risk. Conversely, an old dwelling in a newly developed area is generally acceptable if renovation will result in its conforming with the neighborhood.

NEIGHBORHOOD ANALYSIS RATING

Two items of particular importance in determining whether a neighborhood will support an active market are:

- A. General appearance. The appraiser must consider the extent to which the properties are receiving proper maintenance.
- B. Appeal to market. Essentially, this is a summary rating of the extent to which all aspects of the neighborhood will appeal to the typical purchaser in the market. An individual property by itself cannot overcome a generally prevailing reluctance of the market to invest in a neighborhood. On

the other hand, a relatively weak property in a strong, viable neighborhood is likely to sustain its value, although it still must be carefully analyzed.

The appraiser must rate the various aspects of a neighborhood (based on both proximity and value) by comparing the characteristics for the subject neighborhood to those for the competing neighborhoods. The appraiser must use the following ratings:

Good, to indicate that the characteristics of the subject neighborhood are outstanding and superior to those found in the competing neighborhoods;

Average, to indicate that the characteristics of the subject neighborhood are equal to those that represent the "norm" for that market area and that are considered acceptable in the competing neighborhoods;

Fair, to indicate that the characteristic of the subject neighborhood are inferior to those that are considered acceptable in the competing neighborhoods; and

Poor, to indicate that the characteristics of the subject neighborhood are substantially inferior to-or in such small supply when compared to-those found in the competing neighborhoods to the point that single-family residential property values are (or may be) affected adversely.

A rating of "none" or "non-existent" is not acceptable. Instead, a neighborhood should be rated based on what is the "norm" for that location and the competing neighborhoods. If a neighborhood is characterized by a lack of maintenance or the absence of local government services, the appraiser would consider the subject neighborhood as "average" if the same conditions are typical of competing neighborhoods.

SITE ANALYSIS

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, and other amenities. If there is market resistance to a property because its site is not compatible with the neighborhood or with the requirements of the competitive market, the PB should underwrite the mortgage more carefully and, if appropriate, require more conservative mortgage terms. The appraiser must comment on any adverse conditions and address their effect on the subject property's marketability and value.

Streets

The property should front on a publicly dedicated and maintained street that meets community standards and is accepted generally by area residents. If the property is on a community-owned or privately owned and maintained street, there should be an adequate, legally enforceable agreement for maintenance of the street. Private streets frequently require extensive maintenance, and property values may decline if they are not regularly maintained. If a property fronts on a street that is not typical of those found in the community, the appraiser must comment on the effect of that location on the subject property's marketability and value.

Zoning

The appraiser must include a specific statement indicating whether the improvements represent a legal use; a legal, but non-conforming (grandfathered) use; or an illegal use under the zoning regulations; or whether there is no local zoning. A mortgage is generally ineligible if it's secured by a property with improvements that do not constitute a legally permissible use of the land.

Highest and Best Use

If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood, and the present improvements contribute to the value of the subject property so this value is greater than the estimated vacant site value, the appraiser should consider the use as reasonable and report it as highest and best use. If the current improvements clearly do not represent the highest and best use of the site as an improved site, the appraiser must so indicate on the appraisal report. In such cases, a mortgage that is secured by the subject property is ineligible.

Utilities

For the mortgage to be eligible for Bud Bank, the security property's utilities must meet community standards and be accepted generally by area residents. If public sewer and/or water facilities that are supplied and regulated by the local government--are not available, then community or private well and septic facilities must be available and utilized by the subject property. If community facilities are used, the owners of the subject property must have the right to access the system's facilities, which must be available on an on-going basis. Generally, private well or septic facilities must be located on the subject site. However, off-site private facilities are acceptable if the inhabitants of the subject property have the right to access them and if there is an adequate, legally binding agreement for their access and maintenance.

If there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities, the appraiser must comment on the effect of the hazards on the subject property's marketability and value.

Conformity To Neighborhood

Special consideration must be given to properties that represent special or unique housing for the subject neighborhood. Non-traditional types of housing--such as earth houses, geodesic domes, log houses, etc.--or atypical types of housing for the neighborhood--such as contemporary dwelling in a housing market that consists of traditional dwellings--must be reviewed with care. The appraiser must be able to establish that an active, viable market exists. If there is limited evidence of market acceptance, the lender must require more conservative mortgage terms. However, if the appraiser is not able to find any evidence of market acceptance and the characteristics of the property are so significant or so unique that a reliable estimate of market value cannot be established, the property is not acceptable security for any mortgage pledged to Bud Bank.

Dwelling units of any type should contain sufficient living area to be acceptable to typical purchasers or tenants in the subject market area. There should be comparables of similar size to the subject property to support the general acceptability of a particular property type.

Layout and Floor Plans

Dwellings with unusual layouts, peculiar floor plans, or inadequate equipment or amenities generally have limited market appeal. If the appraiser indicates that such inadequacies will result in market resistance to the subject property, the estimated impact on market value must be disclosed in the appraisal. The non-conforming feature should be described in detail and the method of calculating the adjustment made to the estimate of market value shown.

USABLE AREA

The appraiser must be consistent when calculating and reporting the finished gross square meters of usable area. For units in multi-story buildings, the maximum usable area is 100 square meters for mortgages to be refinanced with World Bank resources and 150 square meters for mortgages to be refinanced with AID HG resources. Usable area in multi-story units includes all rooms in the unit but not the thickness of the walls nor separate garages, storage areas or service areas. The maximum usable area for all other structures (row houses, semi-detached houses and single family units) is 150 square meters. The appraiser should include all rooms (but not walls), plus garages, storage and service areas when calculating usable areas in these structures.

Infestation, Dampness, or Settlement

If the appraiser indicates that there is evidence of dampness, woodboring insects, or settlement, a comment on its effect on the subject property's marketability and value must be made. The PB must provide either satisfactory evidence that the condition was corrected or submit a professionally prepared report, which indicates that -- based on an inspection of the property -- the condition does not pose any threat of structural damage to the improvements.

Improvement Analysis Rating

The appraiser must provide a clear, detailed, accurate, and comprehensive description of the improvements. The appraiser should be as specific as possible (commenting on such things as needed repairs, additional features, modernization, etc.) and should provide supporting addenda, if necessary.

The description of the improvements should include a general overall description and specific descriptions of the exterior, foundation, insulation, interior surfaces, heating and cooling systems, kitchen equipment, attic, and car storage. If the property that is being appraised includes an accessory apartment, the appraiser should describe it in the "comments" section of the improvement analysis portion of the appraisal report form.

The appraisal report form should provide a summary of the principal factors about the improvements that have a bearing on the value and marketability of the subject property. These factors are rated to indicate how the subject property compares to competing properties in the general market area. The relative ratings are: good, average, fair, and poor and must be used in the improvement analysis.

A less-than-"average" rating indicates that the rated item is inferior to that in competing properties in the subject market area and as such, will probably result in the subject property's meeting with buyer resistance. If any items are rated less-than-"average", the appraiser must comment on the reasons for the rating and on how they affect the marketability and value of the subject property. The PB must consider the relative significance of the items rated as less-than-"average".

The appraiser must report the condition of the improvements in factual, specific terms. The use of relative ratings does not preclude an appraiser from reporting the detrimental condition of improvements even if that condition is also typical for competing properties. Any condition that may affect the value or marketability of the subject property must be reported to assure that the appraiser adequately describes the property.

Remaining Economic Life

The remaining economic life of a property is the estimated period over which the improvements will continue to contribute to the value of the property, or the estimated period in which the improvements increase the value of the property above that for the vacant site. A mortgage that is secured by a property that does not have a minimum remaining economic life of at least five years is ineligible. The purpose of this policy is to emphasize that the mortgages should be limited to those on residential properties and are not extended to cover those on properties that may have been purchased for speculative reasons.

Valuation Analysis

Appraisers should develop and report in concise format an adequately supported estimate of market value -- based on the cost, sales comparison, and income approaches to value. If additional information needs to be provided because of the uniqueness of the property or some other condition, such additional supporting data should be included in an addendum to the appraisal report form.

COST APPROACH

The cost approach to value assumes that a potential purchaser will consider building a substitute residence that has the same use as the property that is being appraised. This approach, then, measures value as a cost of production. The reliability of the cost approach depends on valid reproduction cost estimates, proper depreciation estimates, and accurate site values. The appraiser must research and consider recent trends in material, labor and land costs.

Since units in community associations and other multi-unit projects are integral parts of the total project, the cost approach is generally impractical for estimating the value of any given unit. The cost approach can be a good indicator of value for newer or renovated properties that are one- to four-family residences, that are detached or semi-detached. If the cost approach is not used in such cases, an explanation must be provided along with an estimated site value.

Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

The appraiser arrives at the indicated value of a property by estimating the reproduction cost of new improvements, subtracting the amount of depreciation from all causes, and adding an estimate of the value for the site if it were vacant and available to be developed to its highest and best use. The reproduction cost estimate should reflect the cost of construction based on the current prices of producing a replica of the property being appraised -- including all of its positive and negative characteristics. Although the construction materials used for the estimate should be as similar as possible to those used for the subject property, they do not have to be exactly the same.

If the appraiser's estimate of the value for the site is one that is not typical for a comparable residential property in the subject neighborhood, a comment on how the variance affects the marketability of the subject property must be included.

In reviewing the appraisal report, the PB should make sure that the appraiser's analysis in the cost approach is consistent with comments and adjustments mentioned elsewhere in the report. For example, if the neighborhood or site description reveals that the property backs up to a shopping center, the PB should expect to see an adjustment for external depreciation in the cost approach. Similarly, if the improvement analysis indicates that the floor plan is not functional, the PB should expect to see an adjustment for functional depreciation.

SALES COMPARISON APPROACH

The sales comparison approach to value, or the market data approach, is an analysis of comparable sales, contract offerings, and current listings of properties that are the **most** comparable to the subject property. However, only the comparable sales data is required in the appraisal report. The appraiser's analysis of a property must take into consideration all factors that have an impact on value, recognizing that a well-informed or well-advised purchaser will pay no more for a property than the price he or she would pay for a similar property of equal desirability and utility if it were purchased with undue delay. The appraiser must analyze the closed or settled sales, the sales under contract, and the current listings of properties that are the most comparable to the subject property. This is particularly important in markets where prices are stagnant or declining because the competing current listings and contracts probably reflect the upper-end of value for the subject property as of the effective date of the appraisal, and appraisers must accurately report and reflect market conditions as of that date. The comparable market data must be verified, analyzed, and adjusted for differences between the comparable properties and the subject property. When comparable sales data is provided by a party that has a financial interest in either the sale or financing of the subject property, the appraiser must reverify the data with a party who does not have a financial interest in the subject transaction.

A. Selecting the Comparables. The appraiser must report a minimum of three comparable sales, which have settled or closed in the last 12 months, as a part of the sales comparison approach. The appraiser may submit more comparable sales to support the estimate of market value, as long as at least three are actual settled or closed sales. The appraiser may also use older comparable sales as additional supporting data when appropriate. The appraiser must comment on the reasons for using any comparable sales that are more than six months old. In addition, the appraiser may use the subject property as a fourth comparable sale or as supporting data if the property previously was sold (and closed or settled). Contract offerings and current listings may also be used as supporting data.

For properties in new subdivisions or for units in new (or recently converted) community associations, the appraiser must compare the subject property to other properties in its general market area as well as to properties within the subject subdivision or project. This comparison should help demonstrate market acceptance of new developments and the properties within them. Generally, the appraiser should select one comparable sale from the subject subdivision or project, one comparable sale from outside the subject subdivision or project, and one comparable sale, which can be from either inside or outside the subject subdivision or project as long as the appraiser considers it to be a good indicator of value for the subject property. In selecting the comparables, the appraiser should keep in mind that sales or resales from within the subject subdivision or project are preferable to sales from outside the subdivision or project as

long as the developer or builder of the subject property is not involved in the transactions.

B. Adjustments to Comparable Sales Each comparable sale that is used in the sales comparison approach must be analyzed for differences and similarities between it and the property that is being appraised. The appraiser must make appropriate adjustments to the comparable property value for differences in location, terms and conditions of sale, date of sale, and the physical characteristics of the properties. "Time" adjustments must be representative of the market and should be supported by the comparable sales whenever possible. The adjustments must reflect the time that elapsed between the contract date for the comparable sale and the effective date of the appraisal for the subject property. The appraiser must indicate whether the contract date or settlement date for the comparables was used and show the relevant month and year.

The proper selection of comparable properties minimizes both the need for, and the size of, any monetary adjustments. Occasionally, there may be no similar or truly comparable sales for a particular property -- because of the uniqueness of the property or other conditions. In such cases, the appraiser must use knowledge and judgment to select comparable sales that represent the best indicators of value for the subject property and to make adjustments to reflect the actions of typical purchasers in that market. Monetary adjustments must reflect the market's reaction to the difference in the properties, not necessarily the cost of the difference.

The amount of the gross adjustment is determined by adding all individual adjustments without regard to the positive or negative adjustments. When the adjustments exceed 25%, the appraiser must comment on the reasons for not using a more similar comparable.

Individual adjustments that are excessively high should be explained by the appraiser and reviewed carefully by the PB. In some circumstances, the use of comparables with higher-than-normal adjustments may be warranted, but the appraiser must satisfactorily justify the use of them.

The appraiser must research the market and select the most comparable sales that are available for the subject property, and then adjust them to reflect the market's reaction to the differences (except for sales concessions) between the comparable sales and the subject property, without regard for the percentage or monetary amount of the adjustments. If the appraiser's adjustments are greater than 25% of the sales price of the comparable, but the appraiser believes that the comparable sales used in the analysis are the best available, as well as the best indicators of value for the subject property, the appraiser simply has to provide an appropriate explanation. If the extent of the appraiser's adjustments to the comparable sales is great enough to indicate that the property may not conform to the general market area, the PB must review the property carefully.

C. Sales Comparison Analysis. The PB should review thoroughly the sales comparison analysis. A spot check must always be made of the positive and negative adjustment calculations. Errors in arithmetic may have a significant effect on the value conclusion and are, therefore, reason for the PB to contact the appraiser.

The PB should pay particular attention to the following items. Because a substantial variance raises questions about the validity of using a specific comparable sale, the appraiser should address the reason for a variance.

1. Proximity to subject property and location. The description of the comparable's proximity to the subject property must be specific (e.g., two blocks south). Whenever possible, the appraiser should use comparable sales in the same neighborhood as the subject property because the sales prices of

comparable properties in the neighborhood should reflect the same positive and negative characteristics relating to location.

2. Sales Price. The sales price of each comparable sale should be within the general range of the estimate of market value for the subject property.

3. Sales Concessions. The amount of sales concessions paid by the seller must be reported for the comparables if the information is reasonably available.

Examples of sales concessions include payment of community association fees; refunds of (or credit for) the borrower's expenses; absorption of monthly payments; and the inclusion of non-realty items in the transaction. The amount of the negative adjustment to be made to each comparable sale is equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions.

4. Usable Area. The usable area should be similar for the subject property and all comparables. The appraiser must address large differences between the subject property and the comparable sales.

5. Over-Improvements. In some instances, the improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range--such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements. The appraiser must comment on such over-improvements and indicate their contributory value in the sales comparison analysis.

Because an over-improved property may not be acceptable to the typical purchaser, the PB must review appraisals on this type of property carefully to ensure that the appraiser has reflected only the contributory value of the over-improvement in the analysis.

The appraiser's comments should reflect the reconciliation of the adjusted (or indicated) values for the comparable sales and identify the comparable(s) that were given the most weight in arriving at the indicated value for the subject property.

INCOME APPROACH

The income approach to value is based on the assumption that market value is related to the market rent or income that a property can be expected to earn. Its use generally is appropriate in neighborhoods of single-family properties when there is a substantial rental market, and it can be an important approach in the valuation of a two- to four-family property. However, it generally is not appropriate in areas that consist mostly of owner-occupied properties since adequate rental data generally does not exist for those areas. If the appraiser relies solely on the income approach as an indicator of market value the appraisal will be unacceptable.

When the appraiser is relying on the income approach, the supporting comparable rental and sales data, and the calculations used to determine the estimate of value, must be attached as an addendum to the appraisal report form.

FINAL RECONCILIATION

The appraiser must reconcile the reasonableness and reliability of each approach to value and the reasonableness and validity of the indicated values and the available data, and then must select and report the approach or approaches that were given the most weight. The final reconciliation must never be an averaging technique.

The appraiser must address any needed repairs or any physical, functional, or external inadequacies and express a descriptive opinion of the condition of the improvements. In addition, the appraiser should

also include comments related to general market conditions in the subject market area.

The PB must make the final decision about the adequacy of the property as security for the mortgage requested. The PBs should exercise sound judgment in determining the acceptability of the property. For example, if the appraiser notes there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities, the PB is exercising sound judgment if it obtains a "well certification" to determine whether the water meets community standards.

If the appraiser has provided a comprehensive and logical analysis of the neighborhood and the property, the PB should be able to reach a sound conclusion on the adequacy of the property as security for the mortgage. In its review of the appraisal and appraiser's comments, the PB should substantiate that the improvements are typical for the neighborhood, are in the general price and age ranges of the neighborhood, the neighborhood has at least an "average" rating, that there are no significant adverse factors, such as environmental hazards, that will diminish the property's value and that the appraiser's estimate of value is reasonable as viewed from the cost and sales comparison approaches. Offsetting positive factors should also be noted and included in the decision process. The PB should not hesitate to conduct its own inspections and/or to contract the appraiser for additional explanations or data.

PACKAGING

This section provides the procedures for packaging collateral for Bud Bank. The PB must review the terms of the loan, (amount, building type, occupancy, interest rate, monthly payment, income, mortgage terms, etc.), and the legal and credit documentation to determine the mortgage meets Bud Bank requirements. If any documentation is found to be deficient or missing, it must be corrected or obtained prior to delivery to the Bud Bank.

Statement of Expenditure

When collateral packages from eligible mortgages with complete and accurate documentation aggregate at least Zl 500,000,000 the PB should prepare a Statement of Expenditure. This schedule should contain, at a minimum, the following data for each mortgage:

1. Beneficiary(s) name
2. Names of Guarantors, if applicable
3. Original Loan Amount
4. Payment Amount
5. Initial Interest Rate
6. The PB's Servicing Fee
7. The Size of the Unit in Square Meters
8. The First Interest Rate Change Date
9. The First Payment Due Date
10. The First Payment Change Date
11. The Property Type
12. The Property Address
13. The Loan-To-Value
14. The Loan Amount requested by the PB*
15. Mortgage Purpose - Purchase or Refinance (Renovation)
16. Construction start and completion dates (new properties)
17. Amount Due the PB on the Requested Disbursement Date

*The maximum loan amount for refundings is 80% of the mortgage loan amount from World Bank resources and 100% of the mortgage loan amount from U.S. AID HG resources.

Loan Proceeds Calculation

The amount due the PB will be determined by the mortgage loan interest rate, the date of the mortgage loan closing, the beneficiary's payment amount and the per cent of the mortgage loan balance disbursed by Bud Bank. All Bud Bank loan disbursements will be made on the first day of the month following receipt of the PB's collateral package. However, all collateral packages must be received by Bud Bank no later than the 25th of the month or the loan proceeds disbursement will not occur until the first day of the second subsequent month.

Example:

The mortgage amount is Zl 500,000,000; the beneficiary's interest rate is 50%; the monthly payment amount is Zl 3,500,000 and the mortgage closed on the 5th day of July. The collateral file is forwarded to Bud Bank on the 10th of July with a requested loan disbursement of 80% of the projected principal amount on August first. The beneficiary paid 26 days of payment amount at closing to be applied toward interest through the end of the month. The first full payment will be due on the first day of the second subsequent month (September).

Payment amount collected by the PB at closing: $26/30 \times \text{Zl } 3,500,000 = 3,033,333.33$

Per diem interest at 50% rate and 360 day year = $\text{Zl } 500,000,000 \times .50/360 = 694,444.44$

26 days accrued interest = $26 \times 694,444.44 = \text{Zl } 18,055,555.44$

Capitalized interest = accrued interest	18,055,555.44
Minus payment collected	(3,033,333.33)
Capitalized interest =	15,022,222.11

Projected mortgage loan balance on August 1 =	
original balance plus capitalized interest =	
Original mortgage loan amount	500,000,000.00
Capitalized interest	(15,022,222.11)
Projected mortgage loan balance - August 1 =	515,022,222.11

Loan proceeds due PB = 80% of projected mortgage loan balance as of August 1 =	515,022,222.11
	X .80
Loan proceeds due PB	412,017,777.77

The Statement of Expenditure should show a total loan proceeds amount to be funded to the PB. This will be the sum of all loan proceeds calculated in the above manner for all mortgage loans listed.

Documentation

In addition to the Statement of Expenditure, the PB should forward to the Bud Bank the following documents for each mortgage loan to be refunded in whole or in part:

- * A copy of the Mortgage Loan Contract
- * A copy of the appraisal
- * A copy of the Extract from the Book of Lands and Mortgages Sections three and four showing the PB's mortgage interest in the property
- * A copy of the Extract from the Book of Lands and Mortgages Sections three and four showing the Bud Bank's interest in the PB's mortgage
- * A copy of any applicable veksels
- * A copy of the subintabulat
- * A copy of the closing documents which show the PB's disbursement of loan proceeds

- * A copy of the loan application

FUNDING

Upon receipt of the Statement of Expenditure, the Bud Bank will review the collateral package for completeness and accuracy. Bud Bank will then verify all calculations of amounts requested by the PB. Any problems discovered in documentation or calculations will be promptly reported to the PB which will have until the 25th of the month to submit corrections to Bud Bank. If the request for loan proceeds is in order by the 25th, the Bud Bank will have the requested loan proceeds transferred to the account of the PB at the National Bank of Poland.

If upon review of the documents submitted with the Statement of Expenditure, Bud Bank determines that a mortgage loan is ineligible, that mortgage loan must be deleted from a revised Statement of Expenditure and a new loan proceeds request amount calculated.

The PB may resubmit such ineligible mortgage loans on subsequent Statement of Expenditures, provided that the necessary actions have been taken to make the eligible to Bud Bank.

QUALITY CONTROL SYSTEM

An effective quality control system verifies the existence and accuracy of legal documents and credit documentation and the quality of property appraisals and underwriting decisions.

The PB's system must assure that mortgage loans conform to the PB's policies, are of a quality acceptable to Bud Bank and comply with insurer and Bud Bank requirements.

The quality control system must be capable of evaluating and monitoring the overall quality of mortgage production.

Operation:

The PB's quality control system should be a post-closing investigation of mortgages. The PB must properly train and provide manuals detailing standard operating procedures to all employees who will be involved with, or affected by, the quality control system.

Based on its size and the type of mortgages it originates, the PB should make a determination about the proper procedures that will best suit its individual operations. Procedures should be performed by personnel who are not part of the production and underwriting functions.

PBs should be able to demonstrate the effective operation of their system when Bud Bank quality control or audit personnel visit their offices.

Timeliness of System:

The PB must establish a schedule to ensure that the quality control procedures are performed on a regular basis. We recommend that mortgages be selected weekly, with a monthly reporting of findings to management. Records should be maintained and made available to Bud Bank on request.

The system must provide sufficient controls to measure results, discrepancies, and actions taken in a timely manner.

Selection Process:

The PB must select for a full review at least 10% of the mortgage loans it originates. The system must provide for quality control personnel to conduct additional reviews at their own discretion to ensure that all underwriters, appraisers, and branch offices are reviewed. All discrepancies and problem areas must be identified.

Areas of Investigation:

1. Legal Documents. The following legal documents should be reviewed and checked for accuracy and completeness:
 - * Mortgage or construction loan contract;
 - * Veksels, if applicable;
 - * Extract from Books of Lands and Mortgages reflecting the seller's title to the property;
 - * Lien application or other notary document reflecting the PB's request for reservation of first, and if applicable, subsequent lien priority positions in the Books of Lands and Mortgages;
 - * Plat or Survey;
 - * Denial or Approval Letter;
 - * Purchase Contract or Sales Agreement;

- * Community Association Declaration and Bylaws, if applicable;
- * Settlement Statement; and
- * Any required building permits or local government approvals necessary for acquisition, subdivision and/or construction of improvements on the property.

2. Origination Documents. Certain origination documents must be reviewed and reverified:

- * The PB must review the mortgage application for completeness and signatures;
- * The PB must obtain written reverification of employment, income, deposits and sources of funds for the down payment and closing costs on mortgage loans;
- * Credit information should be updated if possible through the reverification with creditors of the status of outstanding personal and business loans or business lines of credit from suppliers;
- * The value conclusion, the neighborhood and subject property analyses, the appropriateness of the comparables, and the overall quality of the appraisal should be reviewed.

The PB should obtain a spot-check appraisal (prepared by a qualified independent appraiser) for one out of every ten mortgages chosen for review (10% of the 10% selected). The spot-check appraisal may consist of either a new appraisal or a field review. At a minimum the field review must include an exterior inspection of the subject property and the comparables, as well as a thorough analysis -- with emphasis on the accuracy of the factual data on the appraisal report.

3. Underwriting Decisions. The PB must determine that the mortgage or construction loan was properly underwritten and that sound underwriting judgments were made. Mortgages must be reviewed for compliance with Bud Bank's mortgage eligibility criteria, and with its underwriting guidelines and standards. The PB also must determine that any conditions the underwriter established were satisfied.
4. Record Keeping. The PB should maintain accurate and detailed records and should document all corrective actions taken. Records should be made available to the Bud Bank on request. The PB should design its reporting procedures so that they are useful as an internal management tool to evaluate and monitor production quality.

Results of Investigation/Follow-Up

The system should provide for the regular reporting of quality control findings and any significant variances to Bud Bank.

To minimize the recurrence of problems, PBs should be sure that discrepancies are analyzed thoroughly, that appropriate steps for corrective actions are instituted, and that follow-up procedures are well-communicated within departments.

REPORTING REQUIREMENTS

Organizational Changes

The PB must report to the Bud Bank any of the following events:

- * The resignation, replacement or addition of any senior management personnel;
- * Any mergers, consolidations, or reorganizations;
- * Any substantial change in ownership or management;
- * Any change in corporate name;
- * A significant change in financial position
- * Any failure to comply with regulatory or government requirements
- * A significant change in portfolio delinquency rates on any type of loan (consumer, commercial or mortgages)

Procedural Changes

The PB must report to the Bud Bank:

- * Any major change in business strategy (for example a move from mortgage lending to construction lending in multi-family projects);
- * Any significant revisions to underwriting guidelines or change in underwriting personnel;
- * Any change in methodology in calculating payments, interest accruals, payoffs, late charges or application of beneficiary payments;
- * Any change in data processing services suppliers involving the origination or servicing of construction mortgage loans;
- * Any significant changes to accounting procedures or a change in independent accounting firms.
- * Any significant changes to the quality control procedures or personnel

Annual Reports

- * An annual audit of books, records, and individual sub-loan accounts must be performed by an independent outside audit firm in accordance with generally accepted audit standards. The results of these audits must be reported to Bud Bank no later than six months following completion of such audit;
- * Annual financial statements prepared by an independent accounting firm in accordance with generally acceptable accounting procedures must be submitted to Bud Bank within 30 days of their preparation;
- * On or before October 31 each year, the PB must report to Bud Bank:
 1. A status report of all outstanding construction loans being funded by Bud Bank programs. These reports must include:
 - * The per cent completion of the construction sub-project;
 - * Whether the time and cost estimates of initial budget estimates remain as approved and if not, the new estimates;
 - * A summary of advances and calculation of expenditures to date, and;

- * An estimate of expenditures and advances over each of the next four quarters and a total for the next year.
- 2. An estimate of new refunding requests from the PB to the Bud Bank for each of the next four quarters for both new mortgage loans and construction loans and a total for the next year.
- 3. A report of all mortgage loans and construction loans settled over the preceding year and refunded by Bud Bank programs which shows:
 - * Loan type (construction or mortgage)
 - * Property type (community association unit, single family detached, row house, etc.)
 - * Household income
 - * Usable area
 - * Location
- 4. A narrative summary of mortgage loans and construction loans funded by Bud Bank programs secured by properties with energy conservation features and/or which utilized new construction techniques and technology. The features, techniques and technology should be briefly described and the total number of units plus the aggregate amount of related loans should be reported.
- 5. An explanatory report of differences in last year's projections for refunding requests during the current year and actual requests submitted.

Quarterly Reports

- * Construction status reports for outstanding construction loans being refunded under Bud Bank programs as outlined above except with a projection of the timing and amount of advances and refunding requests over the next 90 days.
- * Projected refunding requests for both new mortgage loans and construction loans for each month of the subsequent quarter.

Optional Reports

- * Any results of survey or evaluations of demand by property type, household income levels, property design, construction techniques or property location.
- * Any problems experienced with Bud Bank program requirements or guidelines.
- * Any suggestions for improvements or modifications to program requirements or guidelines.

Other Reports

- * Any reports that Bud Bank, or its successor, may request from time to time;
- * All routine accounting and other servicing reports;
- * All files and documents requested in Bud Bank's post purchase review procedures.

MORTGAGE LOAN SERVICING

ACCOUNTING

Monthly Payments - A monthly payment may consist of principal, interest, escrow deposits and, any applicable late charges.

Escrow Accounts - An escrow account is a trust account in which a portion of a beneficiary's monthly payment is deposited so that the PB will have funds available to pay property taxes, lease payments, insurance premiums, and other bills that help maintain the security of the property. Escrow accounts are established at the PB's discretion on pledged mortgages funded with Housing Guaranty Resources, however all pledged mortgages funded with World Bank Resources must be held in escrow for taxes, lease payments and hazard insurance. In administering escrow accounts, the PB must ensure that taxes, insurance premiums, and other payments are made on time to avoid any late penalties or cancellations.

Application of Monthly Payments - Monthly payments are used first to pay any required deposits for insurance and taxes(in the instance that the PB requires the collection of tax and insurance payments from the beneficiary), then to pay accrued interest, and finally to reduce the amount of outstanding principal. If an adjusted monthly principal and interest payment is less than the amount of interest that is due for the month, then the unpaid interest is added to the outstanding principal balance. Subsequently, interest is calculated on the basis of the new principal balance.

To calculate the interest portion of the monthly payment, compute 30 days interest on the outstanding principal balance using the current interest rate in effect for the mortgage. When more than one payment is received, each month's payment should be applied separately. There may be instances in which different interest accrual rates apply to the payments. In those cases, the interest calculation must be based on the interest accrual rate in effect for each of the payments.

Pre-payments or Additional Principal Payments - At any time, the beneficiary can choose to make a lump sum payment to repay the mortgage sub-loan partially or fully without penalty. Lump sum payments are used first to repay interest that has been accrued but not recapitalized, and secondly to repay the outstanding principal balance.

In the case of delinquent mortgage loan, any funds submitted must be used to cure the delinquency. After this is done, the PB may apply any remaining funds as an additional principal payment as described above.

Recording Capitalized Interest in Book of Land and Mortgages - Every two years, the PB must enter the amount of capitalized interest accumulated over the past two years in the Book of Land and Mortgages in those entries that were reserved when the mortgage was first registered.

CUSTODIAL BANK ACCOUNTS

General - The PB must hold in a custodial bank account any funds it receives for mortgages that are pledged against loans with Bud Bank. Each month the PB must provide Bud Bank with a status of the monies in the custodial account as of the end of the month. A separate account must be established for both monthly payments of Principal and Interest Payments (P&I) and Escrow (Tax and Insurance T&I) Payments. P&I and T&I funds cannot be commingled in the same custodial account. These custodial bank statements should cut off at month end to coincide with the cutoff date of Bud Bank reporting period.

Principal and Interest (P&I) Accounts - The title of the account should read:

"(PB's Name) as agent, trustee, and/or bailee for the Bud Bank and/or payments of various beneficiaries (Custodial Account)"

Funds in the P&I account relate to the principal and interest remittances due on those loans that are pledged with Bud Bank. In addition to scheduled payments of P&I installments (including prepayments, the PB also will deposit any additional principal payments, payments-in-full and repurchase(mandatory loan repayment) proceeds.

All funds related to the principal and interest payments that are received for a mortgage must be credited to the P&I account by the next business day after they are received. The PB must maintain records identifying each beneficiary, the amount of each beneficiary's payment, and the custodial account into which each payment is deposited.

The PB may withdraw funds from the P&I account for these purposes only: to remit the funds due Bud Bank and the PB on the remittance date(s); to remove amounts that have been deposited in error; to remove fees, charges, and other amounts that are deposited into the account on a temporary basis; and to clear and terminate the account.

Tax and Insurance (T&I) Account - The title of the T&I account should read as follows:

"(PB's Name) as agent and/or trustee for Bud Bank and/or payments of various beneficiaries, respectively (Custodial Account)".

Funds in the T&I custodial account should relate to escrow deposits collected for the payment of beneficiary's taxes, leases and hazard insurance premiums; to advances the PB made to cover servicing advances required for payment of foreclosure-related expenses; to payments that are being held as "unapplied" pending a determination of their proper application (such as partial payments, payment overages, insurance loss drafts, rent receipts, etc.).

All escrow funds that are received from the PB (including those designated as "unapplied funds") must be credited to the T&I custodial account by the next business day after they are received. The PB must maintain records identifying each beneficiary, the amount of each beneficiary's escrow deposit, and the custodial account into which each payment is deposited.

Escrow Advances - If a beneficiary's individual escrow account does not have enough funds to cover a particular expense when it comes due, the PB will need to advance its own funds to the T&I custodial account to cover this expense. This is necessary because funds held in escrow for one beneficiary cannot be used to cover a shortage in another beneficiary's escrow account. When the beneficiary's escrow balance is sufficient to cover the amount of the PB's advance, the PB can remove the funds it advanced from the account. If the deposits to that beneficiary's escrow account are not sufficient to cover the entire amount of the PB's advance at one time, the PB may remove funds in increments, provided the PB also tracks the total of its withdrawals.

Reconcile Custodial Accounts - Each month, the PB must reconcile its individual accounting records to the custodial account bank statements.

ACCOUNTING AND REPORTING TO THE BUD BANK

Accounting Records and System - The PB must maintain permanent mortgage loan accounting records for each mortgage pledged to the Bud Bank. The records must indicate the portion of the mortgage loan pledged to the Bud Bank and contain the complete Bud Bank loan number assigned to the mortgage loan.

The PB's accounting system must be able to produce an account transcript for each mortgage loan, itemizing the following in chronological order:

- o the date, amount, and breakdown of principal, interest, and capitalized interest;
- o the date to which the payment is paid; and
- o the date, amount, and nature of each disbursement, advance, adjustment, or other transaction affecting the amounts due from or to the beneficiary.

The system must also be capable of

- o providing the current outstanding principal balance and capitalized interest of the mortgage loan;
- o (on loans held in escrow) providing the current escrow balance; and
- o (on loans held in escrow) providing for disclosure of any insufficiency in escrow balances for a mortgage loan.

Reporting and Accounting Method - At the current time, the Bud Bank will require the PB to use a reporting method called Aggregate Exception System Reporting, (AES). This method uses a forecast reconciliation method to determine the proper funds due the Bud Bank at each reporting period. Separate exception reports are required only for prepayments, curtailments, delinquencies, and paid-in-fulls. The Bud Bank automatically updates all mortgage loans not reported as delinquent and those indicated on the special exception reports to calculate the remittance due the next cycle. The objective of AES is to report only non-routine payments, and to reconcile cash received and remitted with the pre-calculated amount. The Bud Bank reserves the right to change the method of reporting and accounting at any time.

Cutoff Date - The monthly accounting cycle will run from the 1st day of the month through the end of the month. The cutoff day is considered to be the last working day of the month (month-end).

Required Monthly Reports - Reports are due to the Bud Bank within 7 business days of the cutoff date.

- o Remittance Reconciliation Report
- o Trial Balance Report (reflecting the actual balances of the loans, due dates, etc.)
- o Participation Trial Balance Report (reflecting the Bud Bank percentage accounting characteristics and the unpaid balance of each loan pledged to the Bud Bank ; e.g. unpaid principal balance, escrow balance, due date, service fee etc.. This report is only required for those loans pledged against World Bank Resources.)
- o New Loan Report (Recap of all new loans pledged to the Bud Bank during the accounting period)
- o Paid in Full Report (Recap of all loans liquidated during the accounting period)
- o Delinquent Report (Reflecting all loans that are past due)
- o Prepaid Report (Reflecting all loans that are pre-paid)
- o DIM Change Report(reflects rate and payment changes on all loans due to change the next month).

Amount and Timing of Remittance - The repayment of the loan to the Bud Bank is based on actual

collections from the beneficiaries. That is, the PB sends the Bud Bank the actual amount of interest (calculated at the pass-through rate) and actual amount of principal collected from the beneficiaries, at the Participation Percentage of the pledged loan. For those mortgage loans pledged to Housing Guaranty Resources, the Participation Percentage will be 100%. For those mortgage loans pledged by the World Bank Resources, the participation percentage will be 80% or less. The pass-through rate is the rate of interest charged by the Bud Bank which is lower than the actual mortgage loan rate. The difference is retained by the PB as a service fee to cover their administrative costs. If no payments are collected in a given month, no funds are remitted to the Bud Bank. If, on the other hand, the PB collects payments before they are due (prepayments), the PB may not hold them but must remit them with their other collections.

Remittances to the Bud Bank are made by funds transfer within five business days of the Cutoff Date.

PAID IN FULL

General - Whenever a beneficiary intends to pay off a loan, the PB must make sure that the final payment is enough to satisfy all principal, interest, and any advances that may have been made.

Calculating Interest - Interest charged to the beneficiary should always be calculated on the outstanding principal balance of the mortgage as of the last paid installment date, using the current interest accrual rate. A full month's interest should be calculated on the basis of a 360 day year, while a partial month's interest should be based on a 365 day year.

Transfer of Funds to Bud Bank - Within five days receipt of a final payment that satisfies all principal, interest, and advances, the PB must wire transfer the proportionate participation percentage of the payoff to the Bud Bank. This would be 100% of the payoff proceeds with loans pledged with the Housing Guaranty Resources and 80% or less as applicable with those mortgage loans pledged with World Bank Resources.

Release of Mortgage - Additionally, within five days, the PB must submit a Release of Mortgage to be signed by the Bud Bank releasing the mortgage collateral.

COLLECTIONS

Requirements of the Collection System - The Bud Bank expects the PB's collection system to include the following:

- o As soon as the PB has the computer ability, an accounting system that immediately alerts the PB when a mortgage is delinquent;
- o personnel familiar with Bud Bank procedures and requirements;
- o counselling procedures to advise beneficiaries on how to avoid or cure delinquencies;
- o guidelines for the individual analysis of each delinquency;
- o instructions and adequate controls for sending delinquent notices, assessing late charges, returning partial payments, and maintaining collection histories;
- o management review procedures to evaluate both the beneficiary's actions; the PB's efforts before a final decision is made to accept some form of repayment arrangement or to start foreclosure proceedings;
- o personnel familiar with the economic conditions of the areas the PB services; and an

understanding on how these will affect collection efforts.

Late Charges - The PB may collect and keep any late charges that are specified in the mortgage contract.

Late Payment Notices - The PB should send the beneficiary a late payment notice no later than the 10th day of the month if the payment has not been received. This notice should state that the payment is overdue and that a late penalty fee has been charged.

Telephone Contact - Telephone contact with the delinquent beneficiary should begin by the 17th day of delinquency, or earlier, for a beneficiary with a history of paying late. The primary purpose of the telephone contact is to emphasize the terms of the mortgage contract, to determine the reason for the delinquency, and to try to gain the beneficiary's commitment (including a specific date and amount) to bring the mortgage current. If the PB determines that the beneficiary is acting in good faith, but is experiencing a temporary hardship, it may want to discuss relief provisions outlined in this section.

Letters - Once the loan is two consecutive payments late, the PB should send an individually prepared collection letter stating that the account is seriously overdue and late penalty fees have been charged on all overdue payments.

Face to Face Interviews - Once the mortgage has become 45 days delinquent, the PB must conduct a face-to-face interview with the beneficiary and all other parties to the mortgage loan, including guarantors. Jointly, all parties should analyze the situation and seek alternatives to legal action to remedy the problem. During the interview, the PB should try to determine the reason for the delinquency (including whether it is temporary or permanent), and the beneficiary's attitude toward the delinquency. The PB should obtain a declaration letter from the beneficiary disclosing family income, debt obligations and known liens resulting from unpaid taxes, alimony etc.. If the beneficiary has a legitimate reason for the delinquency, the PB should discuss the availability of relief provisions, if appropriate.

The PB may conduct additional face-to-face interviews with the beneficiary, if appropriate. At a minimum, the PB must attempt one face-to-face interview with the beneficiary before initiating any foreclosure action.

Property Inspections - Prior to Foreclosure

- o Whenever a beneficiary does not make a payment within fifty to sixty days of the due date, the property should be inspected to ensure that it is being properly maintained. The PB may use the property inspection as an opportunity to conduct a face-to-face interview with the beneficiary, if one was not previously conducted.
- o The PB should inspect the property before it places a delinquent beneficiary under a relief provision, and then reinspect as often as necessary to protect the security interest, but at least once a year. If the beneficiary becomes delinquent under the repayment plan, the PB should inspect the property more often.
- o The PB must inspect the property prior to the institution of foreclosure.
- o If the mortgage loan is in default and the property is vacant, the PB should inspect it every 30 days. If the mortgage loan is current but the PB has reason to believe the property may be in jeopardy, it should order an inspection.
- o If the PB discovers that the property is subject to an environmental hazard, contact the Bud Bank immediately and prior to proceeding with foreclosure action.

During the Foreclosure Process

A property inspection must be completed on a property inspection form and submitted to Bud Bank month. If an inspection reveals that the property has been damaged, the PB should consider postponing the foreclosure sale, to allow time to submit and settle any claim with the hazard insurer.

Property Maintenance - Prior to Foreclosure

If an inspection reveals the property to be vacant, the PB must take reasonable action to protect and preserve it from vandalism to the extent allowed by local laws. This may include securing doors and windows to prevent unauthorized entry; replacing broken glass; weatherproofing against freezing as required; and providing mowing the grass as necessary.

If, at any time, the PB determines that emergency repairs are required to protect the security interest, it must advance the funds necessary to pay for repairs to a property that secures a delinquent mortgage loan. The PB should arrange for the beneficiary to repay this advance, either in installments or as part of the full amount required to reinstate the mortgage.

During the Foreclosure Process

Throughout the foreclosure process, the PB is responsible for performing all property maintenance functions to assure that the condition and appearance of the property is maintained satisfactorily. In addition, the PB should notify Bud Bank immediately about any damage to the property or injury to a person on the property.

Notification to The Union Of Banks - The PB must report all delinquent loans to The Union Of Banks.

Options to Cure Delinquencies -

1. The PB should consider waiving or deferring late charges for those beneficiaries that experience temporary hardships, such as a short-term illness or disability.
2. The PB can accept a partial payment and hold it as unapplied funds, if the beneficiary can pay the balance within 30 days. If the beneficiary will be unable to make full payments for an extended period of time, the PB may consider offering some type of relief provision.
3. If the property is being rented, the PB should try to collect the rental income and apply it toward the delinquent payment if:
 - o other arrangements to repay the delinquency cannot be made;
 - o local law does not prohibit the collection of rents in this situation; and
 - o this action will not result in new rights for the occupant that might affect the ability to foreclose at a later date.

RELIEF PROVISIONS

General - If the PB determines that the delinquency is the result of a temporary condition such as illness, death in family, or unexpected expenses, and that the beneficiary is acting in good faith, it should consider granting a relief provision to the beneficiary. Prior to granting any relief provision, the PB must first conduct a property inspection to confirm that the property is being properly maintained.

Temporary Indulgence - Temporary Indulgence is the act of refraining from taking legal action when a mortgage loan is delinquent but expected to become current within 30 days. The PB

must believe the beneficiary will be financially able to bring the account current by paying the delinquent installment(s) within 30 days. Temporary indulgence may be granted when:

- a. a sale or rental of the property is pending;
- b. an insurance settlement is being negotiated;
- c. assistance from a social agency has been arranged, but funds have not been received;
- d. additional time is need to formalize a repayment plan under other viable relief provisions; or
- e. the mortgage payments are in transit and need to be traced.

Liquidating Plan - The PB may consider a verbal liquidating plan if the delinquency results from a temporary hardship that no longer appears to be a problem and the delinquency involves fewer than three monthly payments. The beneficiary must immediately make payments in addition to regular monthly payments to cure the delinquency. If the PB believes the beneficiary should be granted this relief, explain to him/her their responsibilities, obtain financial information needed to develop the repayment plan and stress the consequences of not meeting the terms of the repayment plan.

Formal Repayment Plan - The PB may consider a formal liquidating plan when the plan involves more that three monthly payments and the delinquency results from a temporary hardship that no longer appears to be a problem. The plan should be in writing and state the terms, including the amount due, payment dates, and the date the delinquency will be cured. The terms for repayment under the plan may include:

1. Monthly payments that are multiples of the regular installment;
2. regular payments one month and multiple payments the next;
3. payments to be made more often than monthly; or
4. any other variation in the timing or amount of the payment that will cure the delinquency in the shortest possible time-preferably within six months of the initial delinquent payment.

Special Forbearance Agreements - A special forbearance agreement is a formal contract to suspend or reduce the monthly payments for a specific period not to exceed eighteen months. The beneficiary must be able to resume regular mortgage payments after the forbearance. All special forbearance agreements must be prior approved by the Bud Bank.

- a. A written special forbearance agreement may be considered where the default results from circumstances beyond the beneficiary's control. These delinquencies may be the result of:
 1. beneficiary's death or the death of a contributor to the monthly mortgage payment;
 2. illness or natural disaster the beneficiary is not insured for;
 3. substantial reduction in income that the beneficiary could not prevent; or
 4. some other unusual circumstance that is well documented and would warrant

a relief provision.

b. The following conditions must be met:

1. The default is curable.
2. The agreement outlines specific dates for repayment and the exact amounts to be paid.
3. The PB obtains a declaration (credit information relating to income and debts) from the beneficiary to determine their financial position and the ability to meet the terms of the repayment plan.
4. The PB obtains the necessary approvals from Bud Bank.
5. The PB inspect the property before executing the agreement, and reinspect it at least every 60 days.
6. The agreement allows foreclosure proceedings to begin immediately in the event of further default under the agreement.

Special forbearance agreements must always be in writing. They should clearly set out the period of reduced or suspended payments, the schedule for making additional payments when the beneficiary resumes regular monthly payments, and the date on which the forbearance will end.

Sale of Property - If a delinquency cannot be cured through forbearance or any of the other suggested means, and it is apparent that the home must be sold, such a recommendation should be made.

Notification of Intent To Take Legal Action -

In the event the beneficiary either fails to comply with the PB's request for an interview or does not make a third consecutive monthly payment, or agreements to bring the loan current through relief measures or other means are not fulfilled in a timely manner, the PB must notify the beneficiary in writing of its intent to initiate foreclosure proceedings. The letter (Breach Letter) must state that the PB will immediately initiate foreclosure proceedings unless all overdue payments and penalties are paid within 10 days from the date of notification. The PB must simultaneously notify the BUD Bank that the Breach Letter has been sent to the beneficiary.

FORECLOSURE ALTERNATIVES

Deed in Lieu of Foreclosure - The PB should consider accepting a voluntary deed in lieu of foreclosure when:

- o the mortgage is seriously delinquent;
- o there is not sufficient other collateral to cover the deficit after the foreclosure sale; and
- o the property is not subject to excessive priority liens held by others.

The PB must conduct proper due diligence to determine that all other liabilities and liens are limited to the property securing the mortgage loan. This process includes requiring a declaration from the beneficiary disclosing all debts and known liens, letters from tax offices stating that taxes

have been paid, and if applicable, a Spouse letter indicating that there is no unpaid alimony or child support.

To request Bud Bank approval, the PB should send Bud Bank a request accompanied by all due diligence information, loan status information and a letter from the beneficiary requesting acceptance of the deed-in-lieu and providing information to document his or her financial hardship. Once Bud Bank has reviewed the request, they will advise PB in writing of their decision. If Bud Bank denies the request, the PB may proceed with the deed-in-lieu as long as it immediately satisfies its debt with Bud Bank.

Loan Modifications - Modifications may be considered for beneficiaries who have experienced a permanent or long-term reduction in income that affects their ability to continue making their monthly mortgage payments. The PB must obtain Bud Bank's approval prior to modifying any mortgage loan.

The PB may call Bud Bank to discuss the relative merits of a particular case before it submits its application package. To request Bud Bank approval of a modification, PB should send Bud Bank a completed workout proposal and a letter from the beneficiary requesting the modification and providing information to document his or her financial hardship.

Once Bud Bank has reviewed PB's package and reached a decision, they will work with the PB to develop modified mortgage terms that meet the beneficiary's financial ability to pay. In instances where the beneficiary's indexed payments substantially exceed 25% of the actual household income due to reasons beyond the beneficiary's control, the Bud Bank may consider capitalizing delinquent payments and lowering the monthly payment to no less than 25% of the beneficiary's household income. Once Bud Bank approves the modification, they will send PB a letter that confirms their approval and the terms of the modification.

Following completion of the modification transaction, the PB has 30 days in which to deliver a copy of a completed Notarial Deed reflecting the loan modifications, which may be either the notarized agreement or a certified true copy of the original agreement that was sent to the notary.

Bud Bank will not require an updated extract from the Book of Land and Mortgages unless the modification involves capitalization of delinquent payments.

FORECLOSURE

Foreclosure Recommendation - Generally, foreclosure proceedings for a mortgage loan can begin whenever at least three full monthly installments are past due. In addition, foreclosure proceedings for any mortgage loan may be started immediately if:

- o the beneficiary was advised in writing of the relief provisions that were available (including deed-in-lieu) and his or her written response indicated a lack of interest in the mortgage obligation; or
- o income from rental of the property is not being applied to the mortgage payments.

PB's should not begin foreclosure proceedings for any mortgage loan if they become aware of environmental hazards that affect the security property. Instead, they should immediately contact Bud Bank.

Prerequisite To Foreclose - Whenever a beneficiary shows a disregard for the mortgage

obligation or is unable to make the mortgage payments the PB must protect the security investment by taking prudent action. However, the PB should not take action to foreclose a mortgage until it has made every reasonable effort to cure the delinquency through special relief provisions or foreclosure prevention alternatives and to conduct a personal face-to-face interview with the beneficiary. The PB also must have inspected and determined a market value of the property.

Before the ninetieth day of delinquency, the PB should decide the most appropriate method of liquidating the delinquent mortgage and advise Bud Bank. Once the PB determines all efforts have been exhausted, a foreclosure recommendation is prepared and submitted to the Bud Bank for their approval. As allowed by governmental law, the PB should obtain all information relating to priority lien positions to adequately evaluate the consequences of foreclosure action. The foreclosure recommendation should include this information in addition to the total indebtedness of the mortgage loan and the market value of the property.

The PB should check with all applicable court and administrative offices to determine if other creditors are in the process of execution against the beneficiary. If the PB determines that other executions are currently in progress, they should enter into those execution proceedings immediately.

Submission to Attorney - Upon approval of foreclosure from Bud Bank, the PB should initiate litigation for foreclosure by submitting the mortgage loan to its designated attorney. It is necessary to ensure that the foreclosure actions that are taken are in accordance with the mortgage contract and government law. The PB should have an internal set of management control procedures that monitor the progress of foreclosure to ensure that the foreclosure is handled timely.

Execution of Other Collateral - The PB must pursue execution of all other forms of Guaranty (Bill of Exchange) and collateral through the Administrative Execution process.

Bud Bank Payoff - The PB, at its discretion, may release pledged collateral by paying in full the proportionate loan at the Bud Bank. Once a loan is submitted to foreclosure, interest ceases to accrue on the Bud Bank. However, a penalty of ____ percent will continue to be assessed each month to the PB until the loan is paid in full. Additionally, if at any time the Bud Bank believes the PB is not handling the foreclosure or disposition of the REO in a proper and expeditious manner, it may demand repayment of the loan in full. If the PB chooses to pay off the Bud Bank loan prior to submission of the mortgage loan for foreclosure, it will not be necessary to obtain foreclosure approval from the Bud Bank.

REINSTATE LOANS OUT OF FORECLOSURE

Full Reinstatements or Payoffs - Until the auction, the loan may be cured by paying the loan in full including all foreclosure expenses or the PB can accept a full reinstatement of the mortgage loan from the beneficiary or through an approved assumption by accepting:

- o all delinquent mortgage payments(bearing interest at the rate applicable on the date they became due);
- o plus any funds that were advanced to pay taxes and insurance premiums;
- o plus all legal fees incurred.

Partial Reinstatement - Until the auction, a partial reinstatement may be accepted if the PB

believes the beneficiary has the proper attitude toward the debt and will be able to bring the mortgage loan current within a reasonable time. The written repayment agreement must state the terms, and include the action the PB will take to resume foreclosure proceedings if the beneficiary fails to meet the terms of the plan. This must be prior approved by the Bud Bank. The application of partial payments should be applied to the loans in such a way not to jeopardize the Bud Bank's legal position in the event foreclosure proceedings need to be resumed.

Third Party Bid - The PB must immediately notify the Bud Bank of any successful third party auction bid. The PB must pay off the pledged Bud Bank loan within five days receipt of the third party sale proceeds.

PB's Purchase at Auction - The PB must report the acquisition of a property through purchase of property by means of the Auction on any loan pledged to Bud Bank. Upon final settlement of the funds from the Auction to all lien holders, the PB should notify the Bud Bank of the new outstanding debt in the property.

Monthly Foreclosure Progress Reporting - The PB must provide the Bud Bank a monthly progress report on all loans in the process of foreclosure. Additionally, it must notify the Bud Bank when any of the events listed below occur:

- o determination of market value from court;
- o any disputes or complaints made by beneficiaries during the court proceeding;
- o date(s) and results of any and all auctions;
- o final distribution of auction proceeds; and
- o any other action or proceeding relevant to the foreclosure process or other executions such as with guarantor Bill of Exchange.

MANAGING REO PROPERTY

General - The PB will be responsible for marketing, inspecting, maintaining, securing and rehabilitating the REO.

Inspections - The PB must make regular inspections of the conditions and occupancy of each acquired property and report to the Bud Bank in writing at least monthly.

If any inspection indicates property damage that would be covered under the hazard insurance policy, the PB should immediately file an insurance claim. The PB is responsible for monitoring receipt of the claim proceeds and monitoring any required repairs.

Eviction - Immediately after obtaining occupied property through the auction process, the PB must apply to the court for a Writ of Eviction.

Hazard Insurance and Taxes - The PB should maintain hazard insurance on the property in the name of the Bud Bank and pay the premiums as they come due. The PB should request that the tax office change the name of the ownership to reflect the Bud Bank and pay the appropriate taxes and assessments as they come due.

If the acquired property is part of a community association, the PB should contact the management company to assure that all future bills for owners' association assessments or fees are sent to the PB, and pay the bills as they become due.

Rents - The PB must collect rent from any tenant that signed a rental agreement and pass

through those payments to Bud Bank.

Utilities - The PB must contact the utility companies to have all bills for utility services directed to the PB and pay the bills as they come due.

Property Preservation - The PB's responsibilities include:

- o installing new locks, if necessary, and providing one set of keys to the real estate broker;
- o coordinating access to the property by all parties, such as property inspectors, vendors making repairs;
- o maintaining the condition and appearance of the property by doing such things as cleaning, removing trash, cutting grass, etc., in a manner that preserves the property's value and prevents deferred maintenance;
- o obtaining and reviewing bids on estimated repair work and hiring vendors to accomplish the work authorized by Bud Bank; and
- o inspecting and taking photographs of the completed repair work and paying appropriate invoices.

Monthly Status Reports - The PB should provide the Bud Bank with monthly status reports on all REO. These status reports should include information on the condition of the property and the broker's status of the real estate listing.

Bud Bank Payoff - Assuming the title is in the name of Bud Bank and the PB did not pay off the pledged loan at the time of foreclosure, the proceeds of the closing should go to Bud Bank. Upon closing the PB is responsible for funding the difference in the closing proceeds and the payoff of the mortgage loan pledged with the Bud Bank.

Other Execution - The PB, at its option, may pursue execution of all other personal property belonging to the beneficiary to cover any monetary deficiencies resulting from the default and subsequent foreclosure.

PROPERTY INSURANCE, TAXES LAND LEASES

HAZARD INSURANCE

General Information - Hazard Insurance provides coverage that compensates for physical damage to a property by fire, wind, or other natural disasters. Each beneficiary has the right to select his or her own insurance carrier to provide hazard insurance for the mortgaged property. It is the PB's responsibility to make sure that adequate hazard insurance coverage on mortgage properties is in effect at all times. The general method to accomplish this is described below.

Policy Requirements - When a mortgage loan is closed, the PB must require the beneficiary to present a policy providing fire and extended coverage and offering protection against other hazards customary in the area. Some basic requirements are:

- o Policies must be written by a company approved to do business by the government of Poland.

- o Policies must be written for a term of one or more years and be accompanied by a paid invoice.
- o Policies should be in an amount equal to the full insurable value of all improvements or the amount of the loan balance, whichever is less.
- o Policies must contain the standard cession customarily used in the area where the property is located. The cession makes losses under the policy payable to the PB.

Although only fire insurance is required, PB's should encourage the use of a contents policy which provides insurance coverage on the beneficiary's personal property.

The PB must retain the policy(ies) along with a paid receipt on all mortgage loans.

Community Associations - Individual insurance policies are not required on mortgage loans in Community Associations, instead coverage is required of the entire Community Association. The premiums are paid by the individual unit owners to the Community Association as part of its monthly fee.

The PB must maintain a "master" or "blanket" type of insurance policy for all Community Association loans it services. The insurance policy must at least protect against loss or damage by fire and all other hazards that are normally covered in a Community Association Blanket policy in addition to any general and limited common elements that are normally included in coverage. Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage. The policy must cover any fixtures and equipments if they are financed as part of the mortgage loan. The insurance policy must also contain the standard cession clause naming the PB.

Although the PB is not responsible for paying premiums on the policy, it is responsible to verify that coverage required on the Community Association is being maintained. This is accomplished by maintaining a master policy for each condominium with an endorsement reflecting all the insured units.

Escrow Requirements - Pledged mortgage loans funded with World Bank resources must require beneficiaries to make deposits to an account that is to be held in escrow expressly for the payment of property taxes and hazard insurance due on the permanent mortgage loan. PB's will have the option of requiring escrow accounts on pledged mortgage loans funded with Housing Guaranty Resources.

Continuation of Coverage - If the beneficiary is responsible for the payment of his insurance policy, the PB must require the beneficiary to submit a new policy with a paid receipt upon expiration of the old policy. A file of policies and policy endorsement should be maintained on all mortgage loans.

The PB should maintain insurance records according to expiration date. This may be accomplished through either an automated system or a manual insurance record card system. In any event, filings must be kept on a current basis and periodic checks should be made to ensure accuracy. Accurate information on all renewals should be maintained on the PB's record cards or computer system. The PB is responsible to insure all renewal information is checked for acceptability and insure that the PB is included in the cession.

If the beneficiary has an escrow account established for the payment of taxes and/or insurance, the PB must pay the premiums required to assure the continuation of insurance coverage. To do this, the PB should use the funds in the beneficiary's escrow account. If the escrow account

is not sufficient to pay the premiums, the PB should either get the necessary funds from the beneficiary or advance its own funds.

Insurance Loss - As soon as the PB learns of a casualty loss, it must contact the beneficiary to get complete details on the damage and discuss plans for having the property repaired. If the PB is unable to contact the beneficiary, it should determine the extent of the damage and the required repairs and obtain information from the insurance carrier detailing the extent and description of loss.

When there is significant damage to the property, the PB must closely monitor the filing of the proof of loss with the insurance carrier, the repairs to the property, and the disbursement of the insurance proceeds. In order to insure there is no delay in claim payment from the insurance carrier, the PB should take the appropriate action to assure that the proof of loss is filed within the time period specified in the insurance policy.

The PB has the following responsibilities:

- o help the beneficiary obtain bids to repair the property;
- o review and approve the final plans for the repairs;
- o monitor the repairs to see that they conform with the approved plans; and
- o disburse the insurance proceeds. If repairs are extensive, the PB should consider making progress payments as portions of the work are completed;

In addition, in certain circumstances, the PB must submit a Report of Hazard Insurance Loss to the Bud Bank. This document should be filed when:

- o the property is in the foreclosure process;
- o the property has suffered a near total or total loss;
- o the insurance proceeds are greater than the cost of restoring the property to its original form; or
- o the PB believes the insurance proceeds should be applied to the mortgage loan rather than to repairing the property.

The Report of Hazard Insurance Loss should include:

- o the status of the mortgage loan;
- o the nature of the loss (partial, near-total, or total);
- o photographs of the damaged property;
- o a complete accounting of all outstanding funds (unpaid principal balance, advances, late installments, etc.);
- o the cost of repairs; and
- o a statement on how the loss proceeds will be applied.

Uninsured Losses - It is not always possible to protect against uninsured losses, such as those caused by natural disasters not customarily covered in standard fire policies. In such cases, the PB should work with the beneficiary to determine the extent of the damage and develop plans for repairing the property. The PB should also secure the property, if it is abandoned and, as soon

as possible, submit a complete report of the damage to the Bud Bank.

If the damage is extensive, the PB should consider any reasonable forbearance plans or modification agreements that the beneficiary proposes, and submit the appropriate request to the Bud Bank for approval.

TAXES/LAND LEASES

General - The PB must maintain a reliable system for determining that property tax and land lease payments are current and paid on all loans pledged to the Bud Bank. This system must not only include data regarding the prompt payment of real estate taxes but also any special assessments upon the property.

Property Taxes (Land Leases) and Special Assessments - An area of special concern is the possibility of tax liens being placed on mortgage property. Generally, tax liens take priority over mortgage liens even if the mortgage lien is recorded first. If delinquent taxes must be paid ahead of the mortgage lien, there is an increased risk that there will not be sufficient funds to pay off the mortgage loan. Therefore, having accurate tax information is an important function of the PB.

The PB must maintain complete tax information on all loans serviced. This must be done whether the beneficiary pays such tax obligations directly or is making tax deposit payments as part of a regular monthly payment. Whatever system is established for this function, it must assure prompt payment of all property taxes and/or special assessments. If these bills are not paid when due, substantial penalties may be added and a lien may be recorded against a property that could seriously affect the interest of both the beneficiary and owner of the mortgage loan. Handling tax bills and the verification of tax payments is an important responsibility of the PB.

To fulfill this responsibility, personnel of the PB must be familiar with local tax structures and practices of tax assessors and collectors. They must know the source of tax bills and special assessments for local improvements.

Obtaining and Recording Receipts - Beneficiary Pays Own

If the beneficiary is responsible for the payment of his property taxes, the PB must require the beneficiary to submit a paid tax receipt for each annual or quarterly installment.

The PB should maintain tax records through either an automated system or a manual tax record card system. All tax records must be reviewed during the tax paying season to be sure that no bills remain unpaid. When beneficiaries fail to respond, a check must be made with the tax office to make sure no outstanding taxes remain unpaid. The PB must take required actions to insure tax payments are brought current.

PB Pays Taxes Through Escrow Account

In the case where the PB pays the beneficiary's tax bill from an accumulated escrow reserve, the following tasks will need to be performed:

- (1) obtaining tax bills from either the beneficiary or the tax collector or tax service;
- (2) verifying each tax bill by comparing it with the legal description or code designation of the applicable mortgaged property;
- (3) making timely payment after determining the adequacy of funds on hand for such purpose;
- (4) collecting shortages if funds are not adequate to pay the current bill; and

- (5) obtaining and recording tax receipts.

The PB should use the funds in the beneficiary's escrow account to pay taxes and other related charges before any penalty date. If the deposit balance is not sufficient to pay these obligations, the PB should either get the necessary funds from the beneficiary or advance its own funds. If a penalty is incurred for the late payments of taxes-and the beneficiary was a factor in delaying the payment-the PB may collect the penalty from the beneficiary. Otherwise, the PB must pay the penalty from its own funds.

Receipts - The PB is responsible for maintaining tax receipts.

PROCESS LOAN ASSUMPTIONS

General - An assumption is a transaction in which the purchaser (transferee) of real property takes over the seller's (transferor) existing mortgage. The transfer of a mortgage can be as simple as permitting a relative to take over a property and mortgage loan or it can involve the sale of a home to an unrelated buyer who then assumes the mortgage loan. The mortgage contract contains a provision that prohibits transfer of the mortgage loan without prior approval of the PB.

Approval Process - Before approving a transfer, the PB should determine whether the new beneficiary is creditworthy and financial capable. This process includes requiring a declaration from the transferee disclosing all debts and known liens, letters from tax offices stating that taxes have been paid, and if applicable, a Spouse letter indicating that there is no unpaid alimony or child support. The transferee should be reviewed following the same procedures as underwriting a new mortgage loan. If necessary, the PB may request additional collateral or guarantors. If approved, the PB should send the transferee an acceptance letter.

The PB must deny the mortgage loan transfer if the transferee (new beneficiary) does not meet the credit requirements. In such cases, the PB should inform the property owner and transferee of the reasons for denying the requested transfer, or of any special conditions placed on the mortgage transfer by the PB underwriter.

Release of Liability - A Release from Liability is a formal agreement absolving a beneficiary from responsibility under a mortgage loan because another party has agreed to assume the mortgage obligations. If the Seller requests a Release of Liability, in addition to approving the creditworthiness of the Buyer, the PB must request an updated extract to ensure no superior liens have been entered since the first mortgage entry. If the assumption is approved, the Release Agreement must be signed by the Bud Bank.

Release of Additional Collateral - If the original beneficiary has additional collateral supporting the mortgage, this should be released in accordance with the nature of the collateral upon approval of the new beneficiary.

Notify Required Parties - The PB should notify the hazard insurance carrier, the tax authorities, and any other interested parties that the mortgage loan is being transferred and request a cession for the new insurance policy.

Transfer of Mortgage Loan Without PB Consent - If the PB learns of a mortgage transfer after-the-fact, the PB should notify the transferor and the transferee in writing that the mortgage loan is due and payable. The transferee may be given 30 days in which to pay the mortgage loan balance in full or to apply and qualify for a new mortgage loan. If the transferee fails to pay off the loan and

does not apply for a new mortgage, the PB may begin foreclosure proceedings with prior approval from the Bud Bank.

PROTECTION OF SECURITY

General - The PB is responsible for protecting the liens on the property securing the loans that are pledged to Bud Bank. The PB's responsibilities toward the protection of the security include:

- o insuring payment of taxes, land leases, or other assessments that could become a lien against the property and maintaining accurate records on the status;
- o making periodic inspections of the property to prevent unnecessary deterioration that may result from neglect or vandalism and advancing funds necessary to protect the property value;
- o taking actions to offset the effects of the attachment of liens or other legal actions; and
- o maintaining the integrity of both the PB and Bud Bank's rights under the mortgage loan by appropriate enforcement of its terms related to monthly payment schedules, partial releases of the security, etc..

Property Inspections - Property inspections may be necessary to assure that the physical condition of a property is satisfactory, and that there are no apparent hazardous conditions affecting the property. The PB normally does not need to inspect the property that is security for a current mortgage as long as the mortgage loan remains current.

When to Inspect - The PB should inspect a property any time it suspects that it is in disrepair, or that it is vacant and may be abandoned. The PB will seldom be in a position to regularly check on all properties to determine this. However, there are several situations that could alert the PB that a property inspection is needed. For example, a tax bill that shows a dramatic reduction in the value of a property may be a signal that the condition of the property could possibly be in disrepair. Secondly, a request for an address change from the property owner may be a signal that the property has been vacated or even abandoned. In such cases, a property inspection may be warranted.

A property inspection should be documented on a property inspection report to document the inspection.

Properties in Disrepair - When an inspection reveals any condition that is detrimental to the property's value or shows the need for urgent repairs, the PB should remind the beneficiaries of their obligation to maintain the property. Depending on their willingness and ability to arrange for the repairs, the PB may need to take additional steps.

If the beneficiaries agree to arrange for the necessary repairs, the PB should follow up until the repairs are completed, giving what help and guidance it can. If the beneficiaries are willing but financially unable to make the necessary repairs, the PB should advance its funds to make the necessary repairs and make arrangements with the beneficiaries to repay the advance. If the beneficiaries refuse to make necessary repairs that are of an emergency nature, the PB should advance its funds and make the repairs immediately. The PB should contact both the Bud Bank and its attorney to determine the best way of collecting the funds.

Vacant and Abandoned Properties - When an inspection reveals that a property is vacant and may have been abandoned, the PB should try to locate the beneficiaries to determine the reason for the vacancy. The PB must also arrange to protect the property from vandalism and the elements to the extent that the local law allows. If the beneficiary cannot be found and the mortgage is delinquent, the PB should consider recommending foreclosure to Bud Bank.

Community Association - When mortgage loans are made that are secured by flats in a community association, the association agrees to give the PB prompt notice of any change in its insurance coverage or of any documentation or casualty loss that may have a material effect on the project or on the security interest. Upon receiving such notification, the PB should immediately contact the Bud Bank.

Notices of Liens or Legal Actions - The PB must take all reasonable actions to prevent new liens that would be superior to the mortgage lien from being attached against the property. If the PB becomes aware that any new superior lien has been attached, the PB must notify Bud Bank immediately.

The PB must take all reasonable action to alert itself of any legal or financial action-bankruptcy, probate proceedings, execution, etc., affecting the property or the beneficiary's ability to repay the debt. This includes a daily review of the newspaper for bankruptcy and other forms of litigation. If the PB learns of such proceedings, it must immediately notify the Bud Bank.

Quality Control Program - The PB should have a system of internal controls that sets standards, measures performance, and determines compliance with applicable legal requirements and Bud Bank requirements.

Partial Releases - Certain events may result in a portion of the property being released as security for the mortgage. Some of these events are:

- a. division of a property; and
- d. taking a portion of the property by eminent domain.

Other events that also result in a release of the security include: the release of personal property from the mortgage or a substitution of the security property or collateral.

When the PB receives a request for partial release, the PB and the beneficiary must complete the Application for Partial Release. The request may or may not involve a cash

payment to the beneficiary as security for the loan. Considerations for release may be made in the following circumstances.

Situations Involving Cash Consideration

- a. The value of the property released is no greater than the amount of the cash paid in consideration for the release and the total cash received will be applied to the outstanding debt. The beneficiary may keep a portion of the cash if it will be used to pay expenses in obtaining the release;

If the released property is significant, the PB must require an appraisal (at the beneficiary's expense) showing the value of the property before and after the release.

Releases Involving No Cash

- a. This may be approved if the value of the remaining property is enhanced or at least not diminished, by the release; or if another property of substantially equal value and comparable use is substituted for the released property.

The PB must also make sure that the priority of the mortgage lien will not be affected by any claims of subordinate lienholders.

The partial release must be signed by the Bud Bank and witnessed by a notary.

DUAL INDEX MORTGAGES (DIM)

General - A Dual Index Mortgage (DIM) is a mortgage that requires periodic interest rate changes based on the movement in the Interest Index (Basic Interest Rate of The National Bank of Poland) and an increase of the mortgage payments based on the movement in the National Wage Index. The PB must enforce each DIM mortgage according to its terms. This includes making periodic interest rate and payment adjustments. The PB must change the mortgage interest rate and monthly payment to the fullest extent permitted or required, maintaining at all times the mortgage margin specified in the mortgage documents. If the PB fails to make a timely interest rate or payment adjustments, it must use its own funds to satisfy any shortage in funds due Bud Bank until the next scheduled change date.

DIM Terminology -

- o Interest Index: A number derived from a formula used as the basis for determining interest rate changes on DIM mortgages. The index used for the DIM is the Basic Interest Rate of the National Bank of Poland.
- o Interest Rate: The rate at which interest accrues on the mortgage. It is the sum of the interest index and the mortgage margin (rounded as appropriate).
- o Interest Rate Change Date: The effective date on which a new interest rate begins to accrue for a DIM mortgage. The change date occurs every month if the interest index changes by more than 1/8 of 1%.
- o Payment Change Date: The effective date on which a new payment amount is

required on a DIM mortgage. The change date occurs every three months if National Wage Index changes.

- o Mortgage Margin: The amount the PB adds to the interest index value to calculate the new interest rate at each adjustment.
- o Payment Index: The index used to compute the new monthly payment amount. The index in The National Wage Index more completely described as the "Wage Index in Six Branches of Economy (Official Statistical Index of Wages) "or It's Successors". This index is announced by the Main Statistical Office.
- o Payment Cap: The maximum increase or decrease to the payment amount for any one adjustment period, as specified in the mortgage contract.
- o New Monthly Payment: This is the monthly payment adjusted quarterly by the rate of increase in the National Wage Index.
- o Household Income: The household income is defined as verifiable and regular income from all sources of all family members or persons who: are currently living together in the unit collateralizing the mortgage loan, contribute on a regular basis to meeting the household's expenses, and are on the application and mortgage title. Decreases in household composition or income that occur after the loan has been granted, as a result of divorce, death or other circumstances, do not change the obligation of the beneficiary to repay the mortgage loan on its original terms, nor do they affect the monthly payment.

Calculation of the New Interest Rate - Each month, the interest rate on the DIM mortgage will change if the interest index changes by more than 1/8 of 1 %.

Determine the Appropriate Index - Take the most recently published value for the interest rate index as of the last business day of the second month preceding the interest change date.

Calculate the Interest Rate - Add the mortgage margin specified in the mortgage contract to the index value. If the mortgage contract provides for rounding, this result should be rounded to the nearest percentage specified in that document.

Calculation of the New Payment Amount - Each quarter, the monthly payment on the DIM mortgage will change if there is a change in the National Wage Index.

Determine the Appropriate Index - Take the most recently published value for payment index as of the last business day of the third month preceding the payment change date.

Calculate the New Monthly Payment Amount - Multiply the current monthly payment by the index. This should result in the new monthly payment amount. For example if the current monthly income was \$400 and the index value was 105% then the new monthly payment would be \$420 (\$400 times 105%). If the index remains unchanged or reports a decrease, the monthly payment remains unchanged or decreases, respectively. If the loan contract has a payment cap, the payment amount may only be adjusted to the extent of the percentage cap stipulated in the contract.

If the monthly payment is insufficient to pay the interest due that month, then the unpaid interest is added to the outstanding principal balance.

Annual Recertification - Each year, the beneficiary's household income shall be reverified. If 25% of the beneficiary's income exceeds the calculated monthly payment using the National Wage Index, then the new monthly payment will be based on 25% of the beneficiary's income not the indexed payment amount. If the verifiable monthly income is less than the indexed payment amount, the monthly payment amount shall be the indexed amount.

Notifications - The PB must give the beneficiary 45 days notice prior to any change in their monthly payment or within 15 days of any interest change. The notice should include:

- o the interest rate and the date it becomes effective;
- o the new monthly payment amount and the date it becomes effective;
- o the amount of interest that will be added back to the loan (capitalized) using the new monthly payment amount;
- o an explanation of the method used to determine the new interest rate and new monthly payment;
- o the beneficiary's option to pay more than the new monthly payment amount; and
- o the dates of the next interest rate and payment changes.

Application for Partial Release

Bud Bank Loan Number

PB Loan Number

PART I

Mortgagor Name

Property Address

Reason For Request

Future Use of That Portion of the Property to Be Released or Divided

Future Use of the Remainder of the Property and How Affected by This Transaction

Restrictions To Be Imposed Upon the Property Involved In the Release

Describe Any Taxes Now Due and Payable or Other Liens Against the Property

Total Cash Consideration To Be Receive Through This Transaction \$

Total To Be Applied To Loan Balance \$

Describe Any Consideration to Be Received by Beneficiary, Other Than Cash

Beneficiary Agrees That the Bud Bank may, at its option, apply any of the proceeds from this transaction to taxes, assessments, land lease payments, insurance, cost or reconditioning or restoration, or to such other items as it may deem proper, or to his or her account. Beneficiary further agrees that no rights or remedies of the Bud Bank under the mortgage contract are or shall be waived, limited, or in any way impaired by any action taken on this application. It being understood and agreed that all costs or expenses incurred in connection with the examination and perfection of title, credit investigation and reports, property inspections or appraisal reports, preparation of entry into the Book of Land and Mortgages, or other items incident to the consideration of this application or consummation of the transaction will be paid by the beneficiary. It is further agreed that the beneficiary will execute all instruments or papers necessary or required by Bud Bank in connection with this transaction and will obtain the consent or waiver of any obligor, co-makers, endorsers, guarantor, etc. to this application.

In the event of the withdrawal or rejection of this application or failure or refusal on the part of the beneficiary to execute the necessary instruments or papers upon request, nothing herein contained or action taken in conformity herewith shall be deemed to constitute a forbearance or extension or prejudice, impair or affect Bud Bank's rights or remedies under the mortgage contract.

Beneficiary

Beneficiary

Bud Bank Official

PB Official

This _____ day of _____ 19_____.

PART II

A. Property information (If appraisal required by Bud Bank)

1. Summary of Appraised Value

a. Present fair market value of property to be released \$_____

b. Present fair market value of security after release \$_____

c. If remaining property is enhanced or diminished in value by reason of this transaction, explain:_____

d. Original Loan to Value _____

e. Occupancy Status _____

2. Source of Appraisal prepared by _____

Qualifications of Appraiser: _____

B. Status of Mortgage Loan as of _____ 19____.

Principal Balance\$_____ Unpaid Installments (#) _____

Escrow Balance\$_____ Total Delinquency \$ _____

Next Due Date _____ Attach 12 month payment history _____

C. PB's Statement and Recommendation

PART III

A. Bud Bank

_____ Approved

_____ Denied

Proceeds of this transaction in the amount of \$_____ to be applied as follows:

_____ To be applied to unpaid principal balance

_____ To be retained by beneficiary

_____ Other (Explain _____)

Remarks:

Date: _____

By: _____

Bud Bank Official

Custodial Account Analysis

T&I Account Reconciliation

Month: _____

Section I - Depository Reconciliation

1. Bank Statement Balance at cutoff date of _____	\$ _____
2. Deposits in transit (total)	+ _____
3. Outstanding checks (total):	- _____
4. Depository Adjustments:	-+ _____
5. Subtotal (Adjusted bank balance):	= _____
6. LESS "Cashbook Balance" Trial Balance Totals:	- _____
7. Unreconciled difference (explain)	_____ = _____

Section II - Composition of Cash Book Balance

1. Escrow Advance to Cover Overdrafts	_____
2. Insurance loss Drafts	_____
3. Partial Payments (unapplied funds)	_____
4. T&I Funds	_____
5. Other (Itemized in Detail)	_____

6. Total (Should equal Line 6, Section I)	_____

Participating Bank Name: _____

Custodial Bank Account Number: _____

Section III - Explanation of Line Items in Section I and II

Section I, Line 2

Section I, Line 3

Deposits in Transit Detail

Checks Outstanding Detail

Date

Amount

Date

Ck.#

Amt

Explanation for "Adjustments" noted in Section I, Line 4:

Explanation for "Unreconciled Difference" noted in Section I, Line 7:

Completed By: _____

Date: _____

Reviewed By: _____

Date: _____

Custodial Account Analysis

P&I Account Reconciliation

Month: _____

Section I - Depository Reconciliation

1. Bank Statement Balance at cutoff date of _____	\$ _____
2. Deposits in transit (total)	+ _____
3. Outstanding checks (total):	- _____
4. Depository Adjustments:	-+ _____
5. Subtotal (Adjusted bank balance):	= _____
6. LESS "Cashbook Balance" Trial Balance Totals:	- _____
7. Unreconciled difference (explain)	_____ = _____

Section II - Composition of Cash Book Balance

1. Principal & Interest Due Bud Bank	_____
2. Principal & Interest Due PB	_____
3. Other (Itemized in Detail) _____ _____	_____
4. Total (Should equal Line 6, Section I)	_____

Participating Bank Name: _____

Custodial Bank Account Number: _____

Section III - Explanation of Line Items in Section I and II

Section I, Line 2

Section I, Line 3

Deposits in Transit Detail

Checks Outstanding Detail

DateAmountDateCk.#Amt

Explanation for "Adjustments" noted in Section I, Line 4:

Explanation for "Unreconciled Difference" noted in Section I, Line 7:

Completed By: _____

Date: _____

Reviewed By: _____

Date: _____